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World Business Newspaper

MONDAY JANUARY 29 1996

RPR set for $100m savings through job and cost cuts

French-controlled US drugs company Rhône-Poulenc Rorer is to announce job and cost cuts – arising from its October acquisition of UK rival Fisons – likely to save it more than $100m a year. The details of further job cuts follow last week's announcement that 140 UK jobs would be cut as part of plans to reduce RPR's $2.5bn debt after the acquisition. Page 21

China shows off HK regiment: Chinese television has shown pictures of the elite "Red First" regiment which will enter Hong Kong and raise the Chinese flag on July 1 1997 – the day control of the British colony changes hands. Page 20; Jiang steals Mao's clothes, Page 3; Hong Kong visa plea, Page 10

Channel tunnel link claim: Supporters of the London & Continental Railways bid for the £3bn ($4.6bn) contract to build the Channel tunnel's high-speed rail link to London claimed the consortium headed by Virgin was in exclusive negotiations with the British government. Page 20; Virgin loses top slot, Page 10; Eurotunnel committee, Page 21

Indosuez cash injection planned: French industrial and financial holding company Groupe Suez plans to inject FFr1bn ($200m) into its banking arm Banque Indosuez by the end of this year as part of a wide-ranging restructuring plan. Page 21

Irish PM presses London on talks: Irish prime minister John Bruton has written to his UK counterpart John Major urging him to use the Mitchell Commission recommendations as the basis for pursuing the Northern Ireland peace process. Page 6

Israeli blood policy sparks protest:

Israeli police use water cannons on Ethiopian Jews (above) protesting against what they called a racist policy by the national blood bank. Police also used tear gas to break up the 3,000 strong demonstration outside the prime minister's office in Jerusalem sparked by revelations that Ethiopian blood donations were being discarded because of the danger of AIDS infection. Aids epidemic warning, Page 10

Mexican bank sale attracts interest: The sale of Mexico's Banca Cremi has attracted the interest of 15 foreign and domestic financial groups, raising hopes of a new wave of investment for the country's troubled institutions. Page 4

Çiller fails in coalition bid: Attempts by Turkey's caretaker prime minister Tansu Çiller to form a coalition government suffered a setback when the conservative Motherland party ruled out joining an alliance with her True Path party. Page 2

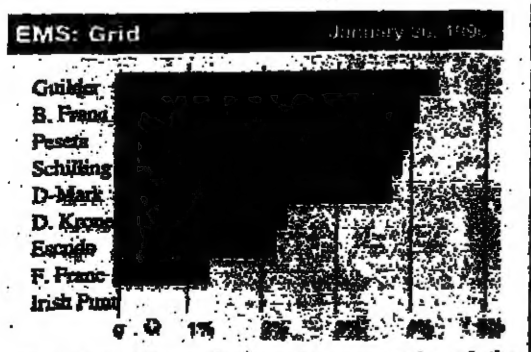
Progress in WTO telecoms talks: World Trade Organisation talks on liberalising telecommunications markets have made progress on one of the most crucial issues – the guarantee of effective competition in markets dominated by a single, usually state-run, operator. Page 4; UK telecoms regulator in talks with BT, Page 6

Pakistan bank sale offers close: Pakistan today receives final offers for the sale of 26 per cent of shares in United Bank, the country's second largest public-sector bank following a twice-delayed submission of bids. Page 3

Becker claims Australian Open title: Fourth-seeded German Boris Becker won the men's Australian Open tennis title for the second time, beating American Michael Chang, the tournament's fifth seed, in four sets 6-2 6-4 2-6 6-2.

European Monetary System: The D-Mark ended on a weaker note against the dollar last week amid speculation that German interest rates might fall. Within the EMS the D-Mark benefited from uncertainty about European monetary union. The Dutch guilder and the Belgian franc overtook the Spanish peseta as the strongest currencies in the EMS grid, while the Irish punt remained the weakest. Currencies, Page 28; Samuel Brittan, Page 18; Editorial Comment, Page 19; Lex, Page 20; US and Germany look at rates, Page 25

EMS: Grid January 26, 1996



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

New York cabbies to spruce up and raise fares 20%

By Richard Tomkins in New York

The cost of riding a New York cab will leap by 20 per cent on March 1 as part of a plan to raise the quality of the city's notoriously unattractive taxi services.

In return, passengers will benefit from air conditioning, rattle-trap cabs will be banished from the streets, and drivers will be required to possess a basic knowledge of Manhattan geography – and English.

From June 30, the plan will also set a flat fare of $30 for the 25-mile ride from John F. Kennedy International airport to Manhattan so that visitors to the city need not fear being cheated.

The shake-up of New York's taxi services, the biggest in a generation, has been ordered by Mr Christopher Lynne, new chairman of the city's Taxi and Limousine Commission.

Mr Lynne was appointed to the post by Mayor Rudolph Giuliani last year, and his reforms follow the pattern of the mayor's own efforts to make New York a cleaner, less threatening and more attractive city.

New York's taxi services are dogged by a licensing system that limits the number of cabs to 11,787 – a number that was fixed in 1937 and has not risen since.

The limited supply of licences, called medallions, has driven their price up to more than $200,000 (£130,000) apiece, and the cost of acquiring them leaves little over for the licence owner to pay drivers or buy vehicles.

As a result, the typical cabbie is paid less than $20,000 a year, so most drivers are newly arrived immigrants whose poor command of English is matched by their ignorance of Manhattan. The city's battered yellow cabs are often second-hand police cars with a re-spray.

Mr Lynne says the fare increase – the first since January 1990 – will make more money available to improve the quality of drivers and vehicles. Fleet owners have been ordered to give at least 60 per cent of the increase to drivers and to replace cars after 36 months.

Mr Lynne hopes higher pay will reduce the rapid turnover among cabbies, producing more experienced drivers. He has also made the entry test for drivers much tougher, requiring higher standards of English and geography and lowering the pass rate from 100 per cent to 70 per cent.

"The Taxi and Limousine Commission's charter says regulate for public comfort and convenience. That's where I sit," said Mr Lynne.

Under the new fare system, the cost of the average taxi ride in New York will rise from $5.50 to $6.60 – still much cheaper than the same ride in London, which would cost £5 ($7.70). However, New York cab drivers expect a tip of at least 15 per cent, while London cab drivers are pleased if they get 10 per cent.

Business Travel, Page 10

Forecasts show slow growth

Kohl insists on no delay to monetary union plan

By Judy Dempsey in Bonn

Mr Helmut Kohl, the German chancellor, insisted at the weekend that there should be no delay in European monetary union as new government forecasts showed that Germany would this year again fail to meet the Maastricht convergence criteria on the public sector deficit.

According to a government economics report due for official release tomorrow, the German deficit will amount to "around" 3.5 per cent of gross domestic product for the second consecutive year, against the Maastricht limit of 3 per cent.

The forecasts are likely to give renewed life to the suggestion made last week by Mr Valéry Giscard d'Estaing, the former French president, that the criteria covering public debt and budget deficits be interpreted flexibly to ensure that European economic and monetary union can begin in 1999.

However, Mr Kohl told a closed meeting in Bavaria of leaders of the governing Christian Democrat-Christian Social Union at the weekend that "anyone who wants to take a break now should know that he could easily be bringing things to an end".

Mr Kohl's commitment is reflected in the economic report which states that a delay would entail the substantial risk of efforts to consolidate public finances in many member states being relaxed. There would be no greater likelihood that the convergence criteria would be met at a later date.

Germany's ability to meet the criteria next year – the critical year for Emu – could depend on what measures the government takes to stimulate growth and create jobs. The economic forecasts published tomorrow show GDP set to grow 1.5 per cent this year compared with previous estimates of between 2 and 2.5 per cent. The west German economy would grow by only 1 per cent and the east German economy will slow to between 4 and 6 per cent.

The overall unemployment rate will rise to 10 per cent, with the rate in west Germany climbing from the current 8.3 per cent to between 8.5 and 9 per cent and in east Germany from 14 to 15.5 per cent.

Ways to combat slow growth and high unemployment will be the focal point of the government's "action for investments and jobs", to be presented alongside the economics report.

Unconfirmed leaks suggest the government will try to close tax loopholes, abolish tax privileges

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Some of the Serbian prisoners of war who were released at the weekend at Sarajevo airport. Fellow prisoners, waiting to be swapped for Moslems and Croats, were later held up as the exchanges ran into delays. Three British soldiers, who were part of the Nato peace implementation force, were yesterday reported to have been killed by a mine near Mrkonjic Grad in Bosnia. EU move, Page 2 Picture: Reuter

Yeltsin memo urges more sackings

Radical plan aims to keep president in power by removing opponents

By Chrystia Freeland in Moscow

An internal Kremlin document signed by Russian president Boris Yeltsin and sent to senior ministers earlier this month urges radical measures to ensure he hangs on to power if he runs in the June presidential poll.

The memo, which analyses the causes of the government's poor showing in the December parliamentary elections, urges the Kremlin to sack regional officials who did not give adequate support to Our Home is Russia, the pro-government party.

It also advises the Russian leadership to increase its control over state-owned media outlets, and argues that government money should be more effectively channelled into the government candidate's election campaign.

The proposals support the widespread public impression that, in order to win this summer's election, Mr Yeltsin is tightening his grip over all of the organs of state power in Russia.

Specific proposals in the memo include:

- Stopping or sharply curtailing financial backing for state-owned regional newspapers which supported opposition candidates in December.
- Ensuring that Mr Yeltsin's political supporters dominate the Central Electoral Commission, the administrative body which runs elections in Russia, and its regional branches.
- Making better use in the election campaign of the resources of non-government organisations which receive state funding.

Some of the recommendations have already been carried out. Earlier this week Mr Yeltsin dismissed three of the four regional government chiefs who the report specifically suggested should be sacked.

Mr Yeltsin has also replaced reformers in his cabinet with hardliners and shifted towards the high-spending economic

Continued on Page 20
Source of Lada jokes, Page 2

Japan approves more public funds for housing loan bailout

By Gerard Baker in Tokyo

The Japanese government approved plans at the weekend to use additional public funds in the controversial liquidation of the country's bankrupt housing loan companies which could bring the full cost of the bailout to as much as Y2,000bn ($19.6bn).

The proposal, which is likely to intensify the widespread opposition to the bailout, calls for public money to be used to meet half of all future losses arising from the liquidation of the seven housing lenders. These funds would come on top of the Y685bn allocated from next year's budget to cover losses already incurred.

This week detailed parliamentary discussion of the bailout scheme begins with the opposition promising a fierce battle. Leading opposition figures said yesterday they would boycott the debate if the government did not provide more information about the activities of the companies, which collapsed under a pile of non-performing property loans.

A parliamentary boycott would seriously damage the prospects of a speedy resolution, something many foreign investors regard as essential for the restoration of stability to Japan's troubled financial sector.

The original plan, proposed by the government last month, calls for more than Y6,000bn of the assets of the housing lenders, or *jusen*, to be written off with the partial use of public funds. The government plans to increase the contribution from its own revenues to help write off additional losses that may arise in the disposal of the remaining Y6,800bn of the companies' assets.

The finance ministry was in negotiations for most of the last month with leading banks in an effort to gain approval for its plan for dealing with these so-called secondary losses. The banks had already agreed to write off more than Y5,000bn in the first stage, the vast bulk of their lending to the *jusen*.

But they wanted assurances that the country's agricultural co-operatives, among the largest creditors, would provide some funding. The farmers' co-ops escaped with contributing just Y530bn to the first-stage losses – 10 per cent of their total lending.

The plan agreed with the banks and approved by the coalition, calls for the transfer of all the remaining assets of the seven companies to a resolution corporation after the first-stage write-offs. This body will be funded by low-interest loans from the banks and agricultural co-operatives. But the farmers' liabilities might be limited in practice since the loans will be guaranteed by the bank-financed Deposit Insurance Corporation.

A special fund will be established, sourced mainly by the banks, to raise funds from which the write-offs of their remaining bad loans will be made. Half of those eventual losses will be paid for by the government. The finance ministry has estimated that these losses could be about Y1,200bn, although independent analysts think the figure is likely to be much higher.

Size is anybody's guess, Page 3

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira93	Spain	Pta250
Czech Rp	Kc60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£85.00
Estonia	Ekr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils.650	Portugal (m'land)	Es240	Turkey	L70,000
France	FFr11.50	Lebanon	US$1.50			UAE	Dh12.00

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NEWS: EUROPE

Yeltsin sets out to warm US relations

By John Thornhill in Moscow and Afshin Molavi in Washington

Russia signalled over the weekend that it wants to keep its relations with the US firmly on track, despite the recent string of personnel changes in Moscow that favoured hardliners over pro-westerners.

Heralding "another honeymoon" in ties with Washington, President Boris Yeltsin voiced confidence that the Russian Duma would soon follow its US counterpart in ratifying the Start-2 treaty, which will slash long-range nuclear arsenals.

Mr Yeltsin said an hour-long telephone conversation with President Bill Clinton had made it clear that "I remained loyal to my friend and he remained loyal to me".

Support for Start-2, which cleared the US Senate on Friday, has also been expressed by Mr Yevgeny Primakov, Russia's hawkish new foreign minister, and Mr Vladimir Lukin, an influential parliamentarian.

Today's visit to Washington by Mr Victor Chernomyrdin, Russia's prime minister, will provide a first test of the ability of Moscow and Washington to conduct "business as usual" on key issues, despite some disagreements.

Mr Warren Christopher, secretary of state, recently gave one of the gloomiest US assessments of post-Soviet Russia, citing crime, corruption and continuing doubts over whether the transition from communism could be managed smoothly.

A US government team is understood to be reviewing policy towards Russia in the light of growing anti-Americanism.

However aides to Vice President Al Gore say they continue to regard as a success story the pragmatic relationship he has established with Mr Chernomyrdin over five previous meetings that have dealt with issues ranging from space to agriculture.

"When you review the totality of what is happening, it's quite impressive," said one official close to Mr Gore. "There is growing set of contacts and business arrangements."

Mr Chernomyrdin is expected to press Russia's claim for a further $9bn loan from the International Monetary Fund – despite the doubts sown in the west by the dismissal of Mr Anatoly Chubais, the respected economic reform chief.

The talks in Washington are also expected to touch on sensitive issues of nuclear security, including Russia's plans to sell bomb-grade nuclear fuel to the European Union, and Russian-Iranian nuclear co-operation.

US officials believe Russia may be aiming to trade co-operation over nuclear issues, both civil and military, in return for US concessions in other areas, including Chechnya and European security.

But Russia's lingering resentment of the US was underlined on Saturday when Mr Primakov met his German counterpart, Mr Klaus Kinkel, and pledged afterwards to "promote stability and stop all those who would like to see the world monopolar".

UK floats possibility of Russian deal on Nato

Russia might be induced to soften its objections to Nato enlargement in return for amendments to the treaty on Conventional Forces in Europe, senior British officials believe, writes Bruce Clark, Diplomatic Correspondent.

The officials, who stressed they were "thinking aloud" rather than making a formal proposal, said Russia could have a good case for seeking a further, wide-ranging CFE review if the Atlantic alliance proceeded with expansion.

"The Russians know that [Nato] enlargement is going to happen, and it might be helpful... if they could say they had gained something too," said one top official.

The UK assessment, if borne out, would imply a considerable softening in Moscow's position. Russian officials have argued that even as things stand, the CFE accord needs substantial revision in Moscow's favour; and that any expansion by Nato would simply kill the treaty.

They also note that Mr Andrei Kozyrev, who recently stepped down as Russian foreign minister, virtually sealed his political doom a year ago when he hinted that Nato enlargement would be tolerable under certain conditions.

However, the UK officials' view is that Russia may simply have to face reality if – as they now expect – Nato opens negotiations with would-be members in 1997 and a timetable is set fairly rapidly.

The CFE was concluded in 1990 as an agreement between Nato and the now defunct Warsaw Pact to eliminate the danger of conventional war from central Europe by removing or destroying tens of thousands of pieces of armour. The accord provides for a review in the event of any country switching alliances.

Russia and several other ex-Soviet republics are now in breach of the accord, having failed to adjust their arsenals in time for a November 1995 deadline.

A review conference is already scheduled for May this year, and if the British predictions are confirmed, the treaty could be further revised next year. So far, however, attempts by the US and Russia to tinker with the treaty's terms have run into strong objections from Turkey, which insists it will not be bound by the treaty unless Moscow also conforms.

EUROPEAN PRESS REVIEW

Deputy PM is new source of Lada jokes

RUSSIA

By John Thornhill

Moskovsky Komsomolets' view: "Do you need a reformer?" asks the dinosaur

By appointing Mr Vladimir Kadannikov as first deputy prime minister in charge of economic affairs last week, President Boris Yeltsin has gambled that the man who makes the notoriously unreliable Lada cars is the right person to steer Russia's fragile economy. He may also have created a whole new category of Lada jokes.

Unsurprisingly, the racy *Moskovsky Komsomolets* newspaper grabbed every opportunity to squeeze humour out of Mr Kadannikov's links with the car industry, labelling him the president's "spare tyre".

In the pithy colloquial language that is its hallmark, the newspaper mused whether Mr Kadannikov would turn out to be a jack that would lift the economy or a burst tyre that would be discarded by the roadside.

But Moskovsky Komsomolets also contained some of the most interesting views about whether Mr Kadannikov's appointment signalled a shift in thinking in the Kremlin. Its journalists argued the appointment confirmed Mr Yeltsin's growing conviction that the slump in industrial production was a greater evil than high inflation.

That would logically lead to a relaxation of tight monetary conditions and an easing of the strong rouble policy – a view which might give the International Monetary Fund nightmares.

"Supporters of the new economic ideology remember the Latin American experience. Brazil, for example, has lived in conditions of harsh inflation for more than 20 years but production levels in the country have increased at 6-12 per cent a year," the newspaper noted.

Russia's weightier newspapers took a balanced view of Mr Kadannikov's appointment but were at more of a loss to explain what it all might mean.

Mr Mikhail Berger, the respected economics editor of the liberal *Izvestiya* newspaper, found it difficult to come to a definitive conclusion. "The particularity of this appointment consists in the fact that there are insufficient arguments either to conclude that Kadannikov signifies the end of the liberal economic course or that Kadannikov represents a stubborn continuation of existing politics."

Vladimir Kadannikov: a jack or a burst tyre?

Other newspapers commented how hard it was to pin down Mr Kadannikov's convictions. Despite his image in some quarters as an industrial dinosaur, Mr Kadannikov was previously a keen supporter of the reform programme pursued by Mr Yegor Gaidar, the pro-market prime minister, in 1992. Mr Kadannikov was also an early and eager proponent of privatisation and the theory – if not the practice – of forming joint venture deals with western investors.

Mr Kadannikov's record of managing the vast Avtocaz car plant, which appears to be in the midst of severe cash-flow crisis and has delayed wage payments to workers, came in for particular scrutiny.

One member of the government's embattled economic reform team commented: "I do not have high hopes of a manager who builds products for which is there a great demand and has high tariffs to protect his industry but has still pushed his company to the brink of bankruptcy."

This theme was taken up with a vengeance by Mr Mikhail Leontyev, the forthright columnist of the *Sevodnya* newspaper, who savaged Mr Kadannikov's management style, suggesting he was more concerned with personal enrichment than the welfare of his enterprise.

In extensive interviews in the *Obshchaya Gazeta* and *Rabochaya Tribuna* newspapers, Mr Kadannikov defended his record and showed himself capable of the odd burst of economic nationalism.

While praising the achievements of his predecessor, Mr Anatoly Chubais, he criticised the results of the strong rouble policy which made it harder to export and easier to import. "This means an improvement in the life of the German Hans and a worsening of the life of the Russian Ivan," he said.

France tries conciliatory line to stop rioting

Raoult's initiative is in marked contrast to last year's call for armed squads, says **Andrew Jack**

Within months of the election of President François Mitterrand in 1981, the Minguettes suburb of Lyons grabbed national headlines and provoked widespread shock when rioters stole and set fire to cars.

Today, Mr Eric Raoult, the country's current minister for urban policy, says that "every night 30 to 100 cars are burned" in different cities around the country.

It is just one illustration of the escalating social and economic problems in France's urban regions, often concentrated in anonymous post-war "banlieues" – suburbs around its larger cities.

Later this week, Mr Raoult goes to Brussels with his boss, Mr Jean-Claude Gaudin, mayor of Marseilles and minister for local development and urban affairs, to argue for EU ratification of the most ambitious element in their own plans to tackle the difficulties.

Along with Mr Alain Juppé, the prime minister, they announced this month their plan to establish up to 30 tax-free zones in the most troubled areas. These would be designed to retain existing and attract new business to help boost job prospects.

They are pushing ahead with a series of other proposals which they hope to have in place by the end of March. These include loans to help refurbish deteriorating high-rise housing blocks, and the creation over five years of 100,000 jobs for local youth at the minimum wage, funded jointly by the state and local authorities.

By Mr Raoult's own admission, the new urban policy package is only the latest in more than half a dozen such initiatives in the last 15 years. But he argues that it is distinct in several ways, including the high priority being given to creating jobs in regions with huge rates of unemployment.

Youths overturn a car during riots in Rouen last year Associated Press

Others are less impressed. A number of local mayors have criticised the sums involved – an additional FFr5bn (£650m) a year, of which more than FFr1bn comes in the form of tax exemptions rather than new money, and a further FFr2bn is being redeployed from existing programmes. It seems far removed from President Jacques Chirac's campaign pledges of a "Marshall Plan" for the cities early last year.

Mr Raoult stresses that "it's not just a question of money" while admitting that he has to work within the government's current tight fiscal constraints.

"We are not a socialist state," he says. "We can't just wave a magic wand and generate 1m jobs." He says those he helps fund "must correspond to real jobs", and that the money in the new plan comes on top of annual urban policy spending of nearly FFr9bn, which will remain in place.

The tone of the government's urban package is arguably as significant as its content. It stresses consultation with local politicians and community groups before deciding on many specific programmes – reflecting Mr Chirac's New Year statement that one of the lessons the government could learn from last year's strikes was the need for greater "dialogue".

Mr Raoult, whose constituency includes one of the poorest regions in the suburbs around Paris, himself speaks in a conciliatory way. He gives the impression of strong empathy with the disillusioned young people of the banlieues, scattering his conversation with references to "mômes", a slang word for "kids".

That seems to mark a change from the references he and Mr Jean-Louis Debré, interior minister, made last year about the need for "Vigi-casseurs", heavily armed police – similar to the high-profile "Vigipirate" security squads which were created in response to terrorist attacks that started last summer.

Nevertheless, he stresses that one of the new plan's demands is for safer cities. So he is creating 4,000 more police posts; many of the police will be redeployed from embassy guard duty and other more ceremonial roles, and trained before being put on the streets.

He is "optimistic" ahead of his visit to Brussels on Thursday to fight for the tax-free zones in the face of concerns that they may be seen as distorting competition. He is willing to reduce their number from 30 to 20, and to modify the criteria by which they are selected.

He argues that they target commerce and small business; will only be in a small number of experimental sites; already exist in other countries; and reflect the high priority of urban policy for President Chirac and the EU.

Mr Raoult says it takes 10 years for urban policies to be effective, but that he wants to see successes ahead of national elections in 1998. "I hope I am not the last minister of the cities... unless the problems have been solved."

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EUROPEAN NEWS DIGEST

Oleksy to lead ex-communists

Mr Jozef Oleksy, who resigned last week as Poland's prime minister over allegations of spying for the KGB, was elected at the weekend by an overwhelming majority as leader of the Social Democratic party (SdRP), the leading group within the ruling Left Democratic Alliance (SLD).

Mr Oleksy, who won 306 votes out of 325 in a secret ballot, succeeds Mr Aleksander Kwasniewski who relinquished the leadership of the party after being elected Poland's president last November. Mr Kwasniewski had led the SdRP since it was founded in 1990 as a successor to the Communist party which had ruled Poland since the war.

Mr Oleksy, who wants to continue to play an active political role, will now be at the very centre of talks which are due to continue today between the SLD and the Polish Peasant party (PSL), the coalition's junior partner, on a common candidate for the post of prime minister.

Mr Waldemar Pawlak, the head of the PSL, was also given a vote of confidence at the weekend before today's talks. He has been under pressure since running a disastrous presidential campaign which saw him win only 4 per cent of the vote. However the national leadership gave him their backing by 61 votes to 46. *Christopher Bobinski, Warsaw*

Coalition blow for Çiller

Mrs Tansu Çiller, Turkey's caretaker prime minister, suffered a serious reverse over the weekend in her attempts to form a coalition government when the conservative Motherland party ruled out joining an alliance with her True Path party (DYP). Mr Mesut Yilmaz, Motherland leader, rejected Mrs Çiller's offer of rotating the premiership between them because she insisted on serving as prime minister for the first half of the government's five-year term.

Although Mrs Çiller may hold talks this week with two small leftwing parties in parliament in an attempt to form a minority government, few observers expect her to succeed. The True Path party won only 135 MPs in the 550-member parliament, coming second to the Islamist Refah party, which took 158 seats, in December's inconclusive elections.

She has repeatedly rejected a coalition with Refah, despite calls last week by some influential DYP members for such an alliance. Mrs Çiller may have to pass on to Mr Yilmaz, her bitter enemy, the mandate to form a government. He has already indicated he would form a government with Refah as long as Motherland's respected economics team had control over economic policy. *John Barham, Ankara*

EU move on rump Yugoslavia

European Union foreign ministers are expected to agree today, at least in principle, on recognising the rump state of Yugoslavia, which consists of Serbia and its ally Montenegro.

The EU move could open up a rift with the US, which believes that any diplomatic rewards for Belgrade should be made conditional on further concessions, including fair treatment of the ethnic Albanians in Kosovo province.

One of the last obstacles to full EU relations with Belgrade will be cleared when rump Yugoslavia recognises the former Yugoslav republic of Macedonia. But it remains unclear by which name Belgrade will recognise its neighbour: a simple "Macedonia" would upset Greece, an old ally of the Serbs.

In Bosnia, three British soldiers travelling in an armoured vehicle were killed by a landmine, while a US officer was grazed in the neck by what Nato called an "apparent sniper incident" in Sarajevo. *Paul Wood, Belgrade*

Life for Borsellino killers

A court in Caltanissetta, Sicily, sentenced three men to life imprisonment at the weekend for their part in the 1992 murder of Mr Paolo Borsellino, the anti-Mafia magistrate. The killing, two months after the murder of his colleague Mr Giovanni Falcone, sparked a crackdown by Italian authorities which led to the arrest of Mr Toto Riina, alleged boss of Cosa Nostra, the Sicilian Mafia.

Giuseppe Orofino, Pietro Scotto and Salvatore Profeta were sentenced for the car bomb explosion which killed Mr Borsellino and five bodyguards outside the Palermo flat belonging to the magistrate's mother. A fourth man, Vincenzo Scarantino, who co-operated with prosecutors under the witness protection programme, was sentenced to 18 years but will not be sent to prison. A further 18 people, including Mr Riina, will stand trial in May for Mr Borsellino's murder. Mr Riina is among 41 defendants already on trial for the killing of Mr Falcone. *John Simkins, Milan*

Russian espionage 'increasing'

The head of Germany's counter-intelligence service warned yesterday that Russian spying was returning to cold war proportions as the country tried to infiltrate the German economic and political establishment.

"Moscow's foreign intelligence is returning in strength to classic methods – such as cultivating contacts," Mr Hansjoerg Geiger, president of the Federal Office for Protection of the Constitution (BfV), told Der Spiegel, the weekly news magazine.

He said Russian agents were carrying out a disproportionate amount of activity on German soil.

Mr Geiger, who took over the top counter-intelligence post last August, said the Russians were targeting Germany in particular because of its key role in the European Union and Nato. *Reuter, Bonn*

Czech president's wife dies

Mrs Olga Havlová, wife of President Václav Havel of the Czech Republic and the woman to whom he addressed one of his most famous books, died in Prague on Saturday. She was 62 and had been ill for some time, reportedly with cancer.

Mrs Havlová was a noted dissident during the communist era in Czechoslovakia and a signatory of the Charter 77 human rights manifesto. She met her future husband in the 1950s and they married in 1964. They had no children. She campaigned on behalf of her husband during his several spells in prison.

While he was imprisoned between 1979 and 1982 Mr Havel wrote her a series of philosophical letters outlining his beliefs These were later published as "Letters to Olga". In recent years Mrs Havlová was prominent in philanthropic work and founded the Olga Havel Foundation, a charity for people with disabilities. Last year she was named the Czech Republic's most influential woman. *Vincent Boland, Prague*

Public anger grows over Japanese bailout

The escalating cost of the housing loan rescue is fueling popular resentment, writes Gerard Baker

The revelation that the cost to the Japanese taxpayer of bailing out bankrupt housing loan companies could triple is certain to intensify public debate over the rescue plan.

Public opinion was already incensed by the decision to spend Y685bn ($6.7bn) of on the bailout. Now the government has agreed to hand over much more.

At the weekend, after weeks of unseemly haggling among banks, politicians and bureaucrats, the coalition parties announced the final details of a plan to dispose of the so-called secondary losses of the housing lenders, or Jusen. It requires the taxpayer to cough up at least as much again before the Jusen issue is finally settled and it is certain to strengthen the hand of those arguing that the whole scheme should be dropped.

The Y685bn, over which so much bad blood has already been spilled, relates only to the first stage of losses in the liquidation of the Jusen.

These companies, established by the leading banks in the 1970s, were bankrupted by their reckless property-related lending of the late 1980s. Out of total assets of Y13,200bn, at least Y6,400bn is now officially estimated to be lost.

Disposing of those bad loans has proved a knotty problem, however. The Jusen's creditors fall into two main categories: banks, and agricultural co-operatives.

Because of their weak financial condition, and, some say, thanks to their strong political links with the governing Liberal Democratic party, the farmers' co-ops were able to convince the authorities that they could not afford to surrender more than a small fraction – Y530bn – of their total exposure to the Jusen. The banks agreed grudgingly to take most of the rest, but would not accept all of it. They said between them they would shoulder losses of Y5,200bn. That left the government filling the remaining gap of Y685bn.

But those figures have been arrived at only by calculating the actual known losses of the Jusen. The other half of the companies' loan books, currently treated as mostly normal assets, are also, in fact, certain to yield further heavy losses.

To meet those losses, the secondary stage of the Jusen disposal calls for the final extra costs to be borne 50-50 by the banks and the government. Once the first set of losses has been written off, all the remaining, notionally recoverable, assets of the Jusen of Y6,800bn will be transferred to a special Jusen Resolution Corporation.

These assets will be funded by loans – Y4.4bn from the banks, and Y2.2bn from the agricultural co-operatives. In addition a special fund will be set up to cover the probable losses. This will be financed by extra loans from the banks. This fund will then be invested and the yields on it used to write off half of the remaining assets that prove non-recoverable. The other half will be funded directly by gifts from the government.

Exactly how large the extra burden on Japanese taxpayers from the Jusen's secondary losses will be is anybody's guess. The finance ministry says likely losses will be Y1,200bn – meaning the government and the banks will have to write off an additional Y600bn each. But most independent observers are unimpressed.

"The ministry's estimate of the final figure for losses is far too optimistic," says Mr Koyo Ozeki, analyst at IBCA, the bank credit-rating agency in Tokyo.

The scepticism is warranted. Land prices, the collateral on which the Jusen's loans were advanced, are still falling fast, especially in Tokyo and Osaka, the two main areas of Jusen lending.

But more important, even if land prices stop falling soon, the amount of the collateral that will actually prove collectible is likely to be far smaller than the current, notional land value suggested by the official figures.

The real estate market in Japan is plastered with so many regulations that a quick fire sale of assets at prevailing "market prices" is almost impossible. Worse still, much of the land supporting Jusen loans has been taken over by yakuza, Japanese gangsters. These characters tend to be difficult to shift and their presence has about the same effect on realisable land prices as an outbreak of bubonic plague.

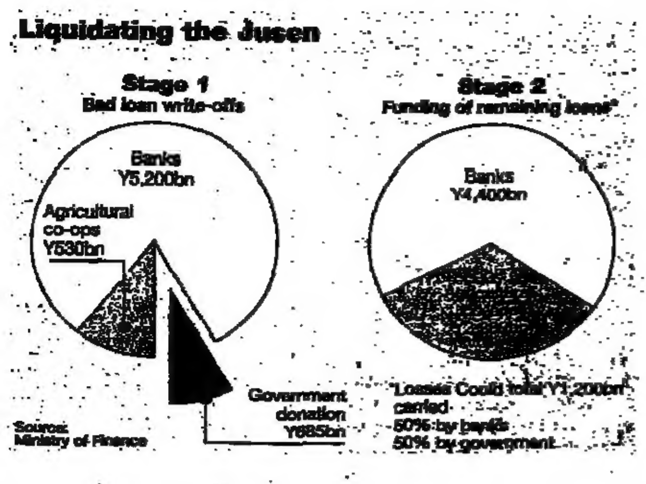
And, in any case, since the government is now committed to providing cash to cover half the eventual loss, the incentive for the lenders to push hard for a settlement is considerably diminished.

There is already some evidence to support this gloomy prognosis. At least one of the Jusen was reported last week as having actually uncollectible assets of almost 90 per cent of its total loans, much higher than the ministry of finance estimate.

That suggests the total ultimate costs to the government of the Jusen bailout will be much higher. If half the remaining bad loans prove collectible (an optimistic assumption) the government's second-round contribution will rise to at least Y1,850bn – nearly three times as much again as in the first round.

The government hopes to defuse further public hostility to the bailout with delaying tactics.

The secondary losses will only be totted up when the Jusen have finally been dissolved. The ministry's plan is that the process should take 15 years. Officials are making the not unreasonable bet that, by the second decade of the next century, even today's most vociferous opponents of the scheme will have forgotten what it was all about.



One of the Jusen was reported as having uncollectible assets of almost 90 per cent of its loans. If half the remaining bad loans prove collectible the government's second-round contribution will rise to Y1,850bn – three times that of the first round

Richard Waters explains how the US solved its housing loans crisis – at a cost of $120bn

Lessons from America for Tokyo policymakers

To judge from the procession of Japanese bureaucrats visiting Washington recently, the clean-up of the savings and loans industry in the US is an experience from which Japan hopes to learn.

Less than eight years ago the expected losses of the S&Ls, or thrifts, were mounting swiftly. After straying from housing finance into risky investments such as commercial real estate and junk bonds, a large part of the industry was insolvent.

The US finally laid its thrift catastrophe to rest at the start of this year, far more quickly than had seemed likely. Thanks to lower interest rates and an unexpectedly fast recovery in the property market, the final cost was lower than predicted – although it still cost a staggering $145bn (£94bn), $120bn of which was provided by taxpayers.

The formal end to the US crisis was marked by the disbanding of the Resolution Trust Corporation, created by Congress in 1989 to clean up the mess. During its life the corporation took over 747 institutions and sold $450bn of their assets – the equivalent of liquidating Citicorp twice over.

The first lesson of the bail-out for Japan, battling with the bankruptcy of its own housing loan companies, is that, if left to fester, an industry-wide bad debt problem can quickly get out of hand.

The US failed throughout the 1980s to face up to the scale of the thrift industry's problems, finally getting its arms around the crisis only after President Ronald Reagan had vacated the White House. By then, frauds had multiplied and many insolvent institutions had taken still bigger risks in their efforts to plug the holes in their ailing balance sheets.

Japanese politicians "should be moving very aggressively",

It could happen here again, says Wall Street's Dr Doom

says Mr Bill Isaac, a former chairman of the US's Federal Deposit Insurance Corporation. "Once the US recognised the problems, it put them behind it much quicker than anyone expected."

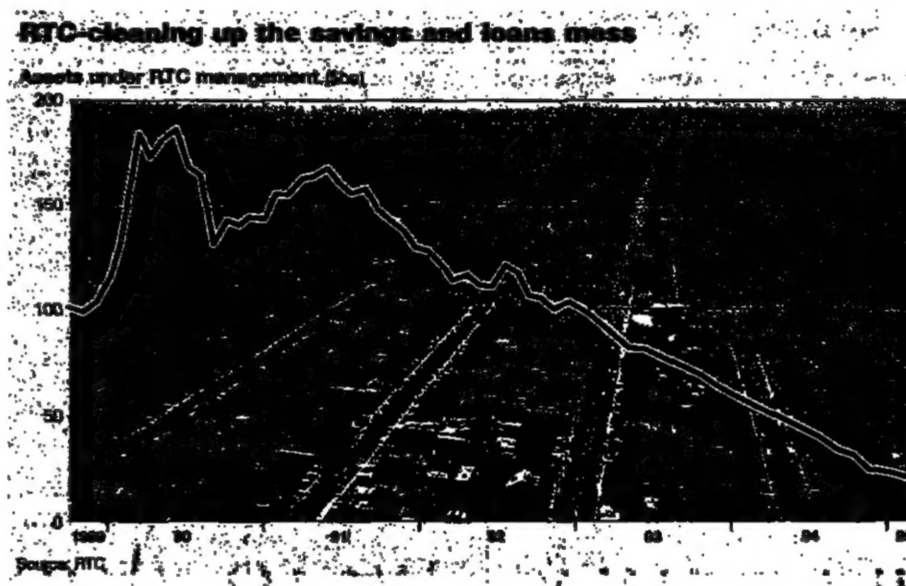
However, cultural differences will make it far harder for Japanese institutions to admit the true depth of their problems, according to Mr Henry Kaufman, a former Wall Street economist who now runs his own consultancy firm. Those differences are embedded in the financial system, right down to accounting rules that do not force assets to be fully written down when their value is impaired, he adds.

A second lesson from the US crisis is that a taxpayer bail-out can only achieve so much – deep wounds to the financial system need another type of medicine.

The problems of the thrift industry were one aspect of a broader real estate crisis that threatened US financial institutions. Many of the country's biggest banks were also caught out by the rush to lend for new, speculative buildings. For them, salvation came through lower interest rates, which provided a cash infusion by lowering their borrowing costs at a vital moment.

"The RTC took care of the institutions that failed – monetary policy took care of those that were too big to fail," says Mr Kaufman.

Big differences in the two country's markets mean that many of the techniques developed by the RTC cannot be imported directly into Japan. The US's more active and transparent real estate market, for instance, made disposals easier. The existence of a market for asset-backed securities (whose payments are made from an underlying asset, like a portfolio of commercial mortgages) also enabled the agency to tap into a broader group of investors through the capital markets.



In other ways, though, the RTC's experience raises questions relevant to the clean-up in Japan. The most important will have to be faced early on: is it better to dispose of assets quickly at a big discount, or to feed them slowly into the market to maximise returns?

After a slow start which attracted rebukes from Washington, the RTC began a rapid fire-sale, in some cases selling entire portfolios of buildings worth more than $1bn.

It is impossible to judge just how good a bargain the agency struck for the US taxpayer. It raised 87 cents from every $1 worth of assets it inherited. That figure was boosted by the high recovery rate on securities (98 per cent) and domestic mortgages (96 per cent). The sale of other types of mortgage (76 per cent) and of real estate holdings (55 per cent) were less impressive.

The final lesson from the thrift debacle is one that the US itself has yet to learn. Expensive bail-outs are only a short-term fix. In the long run, more taxpayer money will be spilt if the underlying causes of the crisis are not tackled.

While the shrunken thrift industry itself is unlikely to cause such a crisis again, the US financial services industry still displays some of the characteristics that brought it about.

Chief among these are a fragmented system of financial regulation, in which responsibilities are shared between numerous agencies, and federally backed deposit insurance.

Two and a half years ago, the National Commission on Financial Institution Reform, Recovery and Enforcement – set up to consider the lessons of the thrift debacle – called deposit insurance the "necessary condition" without which the crisis could not have occurred. By removing their fear of loss, it encouraged depositors to leave their money in shaky institutions – in turn encouraging their managements to take big risks with impunity.

"Fundamental reform of federal financial insurance and guarantee programmes is central to avoiding future disasters," it warned. So far, that issue has not been addressed.

Mr Kaufman – once known on Wall Street as "Dr Doom" – sums up the general sense of fatalism in the wake of the thrift disaster. "Can it happen again?" he asks. "Of course it can."

Jiang steals Mao's clothes as power prop

The Chinese president's choice of dress reveals a bid to woo party's conservatives, writes Tony Walker

Singling out President Jiang Zemin's choice of dress may not seem the most obvious way to assess political trends in China, but his recent appearances in an army-style "Mao-suit" indicate a desire to emphasise traditional values.

Mr Jiang's preference for the austere high-collared tunics of another era, in place of the lounge suits favoured by the present generation of Chinese leaders, is clearly meant to signal a return to some form of Communist orthodoxy, although an imminent lurch leftwards in economic policy is not on the cards at this stage.

The Chinese leader's switch to the khaki-green rig has also been accompanied by the use of Maoist language in recent speeches. Last week, in an address to party officials, Mr Jiang employed unusually harsh rhetoric to complain about negative aspects of society.

"We must strictly ban the cultural trash poisoning the people and social atmosphere," he said. "We cannot sacrifice culture and ideology merely for a short period of economic development."

Mr Jiang's campaign, which includes renewed warnings about the dangers of corruption, is clearly aimed at bolstering his own leadership in an uneasy transitional phase as life ebbs away for Mr Deng Xiaoping, China's patriarchal leader. It is also perhaps a sign the Chinese president wishes to distinguish his era from that of Mr Deng, marked in its latter stage by explosive economic growth and social change.

"It may be that this is a conservative, unimaginative way of battening down the hatches for trouble ahead," said a western official in Beijing who also characterised Mr Jiang's apparent campaign as "part of the cyclical process of Chinese politics".

China's leader, in his recent conservative speeches, may also be setting the scene for the forthcoming annual session of the National People's Congress, China's parliament, which convenes on March 5. Speakers can be expected to emphasise conservative themes.

Chinese, themselves sensitive to indications of the onset of yet another political campaign, wonder whether Mr Jiang may not be gearing up for such an event, but at this stage no descriptive catchphrase is being trotted out by party propagandists. This is unlike similar moments in the 1980s when the leadership moved against "bourgeois liberalisation" and "spiritual pollution".

Mr Jiang would know that such campaigns can prove double-edged. They may harm friends and foes alike, and in this case risk unleashing conservative forces whose views may be detrimental to China's overall reform effort.


The final touches being put to a wax model of Deng Xiaoping, complete with Mao suit. President Jiang appears anxious to distance himself from Deng's economic reforms Reuter

A Chinese official said Mr Jiang's choice of conservative dress was a sign he was under increased pressure from the conservative faction in the Communist party as well as in the army. "The fact that Jiang has been steadily strengthening his association with the military and talking more about the old party line means the political struggle is intensifying," the official said.

"Jiang needs the support of the military in the post-Deng era, and it serves his purpose to appear like a member of the older-generation leadership."

This may be a simplistic view of cross-currents within the leadership; but Mr Jiang, whose military credentials are weak – he did not fight in the 1949 revolution that brought the communists to power – has spent the past year or so seeking to strengthen his ties with senior generals.

At the fifth plenary session of the 14th central committee of the Communist party held last September, Mr Jiang engineered the appointment of younger generals, including supporters, to the Central Military Commission – the People's Liberation Army's commanding body – of which he is chairman.

The Taiwan issue is also being used to portray Mr Jiang as a mentor of the military. He has made a point of being shown attending military exercises in the Taiwan strait. These exercises are aimed at reinforcing the message that China will not tolerate Taipei's drift towards independence, and would indeed contemplate military action to prevent that happening.

Western officials note that Mr Jiang's more conservative line, which also involves tightening the screw on the media – he recently described journalists as "engineers of human souls" – follows the circulation late last year of a stinging critique of political, social and economic trends in China by veteran Communist party members.

The internal party document, entitled "Some Elements That Affect Our National Security", warned that China's economic reforms were sowing the seeds of the party's destruction. It said the party risked going the way of its counterpart in the former Soviet Union if it did not slow the pace of change.

Mr Jiang himself is now warning of the dangers of rapid economic development. Mr Zhu Rongji, China's senior vice premier in the charge of the economy, has been playing a similar tune.

At a meeting recently with editors of pro-Beijing Chinese language newspapers in Hong Kong, Mr Zhu described as "crazy" the explosive development phase that followed a visit to southern China by Mr Deng in early 1992 during which he re-ignited China's economic reform effort by urging rapid growth.

Privatisation in Pakistan faces new test

By Farhan Bokhari in Islamabad, Pakistan

Pakistan today receives final offers for the sale of 26 per cent of shares in United Bank Limited, the country's second largest public sector bank, following a twice-delayed submission of bids.

The sale is taking place against the background of recent anxieties over the future of Pakistan's privatisation plans and government efforts to restore confidence in the programme.

Last week, the government delayed UBL's sale for a second time when one of the two competing investors decided to withdraw at the last moment. The pull-out followed the government's refusal to guarantee future soft loans to assist restructuring at the bank.

Pakistani officials hope the sale of UBL will help overcome troubles in the public sector banks, which are under pressure because of more than Rs100bn (£1.8bn) in bad debts. The debts have accumulated over 20 years, largely because they were extended in the form of patronage to politically influential borrowers, who have paid no interest and repaid none of the principal.

The UBl sale has been based on the successful privatisation of MCB or Muslim Commercial Bank, Pakistan's third largest public sector bank, sold in 1991 under a similar arrangement when 26 per cent of its shares were privatised and the management transferred to the private sector. Since then, MCB has gone through a radical restructuring and its efforts at mobilising new deposits has shown an annual growth of 31 per cent since privatisation.

Investors' worries over the delay in the UBL sale have been compounded by the government's decision to delay the planned privatisation of the Pakistan Telecommunications Corporation, the national telephone company, by at least six weeks beyond the March 31 deadline.

The UBL delay also raised the possibility that Pakistan could fail to meet one of the conditions attached to a $600m (£390m) IMF loan signed last month which required Islamabad to sell the bank and transfer its management to the private sector by the end of January.

Western officials, however, say the delay should not harm Pakistan's relations with the fund as long as the IMF remains convinced there will not be further postponements.

The government claims that 1996 will see the fruits of its programme, with the flotation of several companies providing services in the telephone, banking and power sectors. Mr Naveed Qamar, chairman of Pakistan's privatisation commission, said yesterday: "We are at a stage where a lot of things that we have been working on over the last 18 months have all come to a stage of maturity. This certainly will be the year where results will be shown."

Other officials said the government plans to offer 26 per cent of shares in Habib Bank, the country's largest, before the end of the year, and also transfer its management to the new buyer. In addition, one of the largest power plants, the 1600MW Kot Addu station in the southern Punjab, would also be offered by the summer.

However, Mr Sartaj Aziz, the former finance minister and an opposition senator, said the government had set itself a huge task and would find it difficult to generate interest simultaneously in all the companies on offer.

Mr Aziz also advised the government to delay its offers including the UBL placement for a few months until share prices on the Karachi stock exchange showed some improvement.

One leading businessman who advises potential investors on privatisation opportunities agreed. "There are too many things coming up simultaneously. Nowhere in the world do you have governments trying to put so much on the plate at the same time."

Mr Qamar defended the programme and said that investors from different sectors such as power, banking and telecommunications would be looking at different companies on offer. Therefore, the offerings would not necessarily be competing for buyers from the same sector, he said.

Ms Zaina Nowsherwan, a dealer at Taurus securities in Karachi, says: "People have lost confidence in the privatisation programme. The sale of the UBL will help to revive confidence."

Malaysia moves to cool economy

By Peter Montagnon, Asia Editor, in Singapore

Malaysia's central bank is to raise reserve requirements on the liabilities of banks and finance companies by one percentage point to 12.5 per cent from next month as a further move to absorb liquidity and limit credit expansion.

The weekend announcement is a further attempt to defend the ringgit, which has been weak since a speech by the prime minister, Dr Mahathir Mohamad, earlier this month in which he said there was no need to slow the economy or cancel prestige infrastructure projects to curb Malaysia's current account balance of payments deficit.

Instead Dr Mahathir said efforts to boost exports and increase their local content would reduce the deficit, which at M$18.5bn (£4.8bn) last year was equivalent to 10 per cent of gross domestic product.

Ten days ago the central bank intervened in the money market to push up short-term interest rates by around half a percentage point to just over 7 per cent after the ringgit came under heavy selling pressure amid unconfirmed reports of speculative sales by the US investor Mr George Soros.

Saturday's move, which comes after reports of further pressure on the currency last week, will only absorb around M$1bn to M$2bn in liquidity but it is a clear sign that the central bank is concerned at the rate of domestic credit expansion, which doubled to 28 per cent last year.

Private sector economists say there is no immediate concern of a Mexican-style crisis engulfing Malaysia's fast-growing economy, but add that the authorities will have to tighten monetary policy further in coming months in order to cool demand.

Such a large current account deficit cannot be sustained indefinitely, they say. Reserves have slipped to around four months of imports from eight a year ago. With some slowdown evident in foreign investment – approvals fell to M$9.14bn last year from M$11.34bn in 1994 – the deficit will also become harder to finance.

Eximbank setback over $1bn Gulf loan

Private sector credit for petrochemical plant could embarrass the US lender, write **Richard Waters** and **Robin Allen**

The Export-Import Bank of the US has lost out on a $1bn (£660m) loan to finance the Gulf's biggest petrochemical project. The development casts an unwelcome light on the bank at a time when the future of such government agencies has been thrown into question by the Republican-controlled Congress.

The directors of the bank, whose job is to support US exports by lending money in cases where it is not available from other sources, approved a $1bn credit for the project on Tuesday.

Over the weekend, however, it emerged that a rival $1.2bn private sector credit for the plant in Kuwait has already been approved, with support from a group of 14 banks in the Gulf region and the US.

The competition to lend for the petrochemical project, and the close timing of the two rival loans, has put Eximbank in an unusual and embarrassing position.

It has also led to a dispute between the agency and J P Morgan over that bank's role in the affair.

For the Gulf region's developing capital markets, meanwhile, the private sector financing could represent an important breakthrough.

The project, known as Equate, is the largest non-oil private sector foreign investment in the Gulf since the end of the 1990/91 war, and most financiers had assumed it could not be financed without cover from an export credit agency like Eximbank. Such a government-backed agency had been expected to provide 90 per cent of the long-term finance.

Mr Martin Kamarch, Eximbank's chairman, is due to meet representatives of J P Morgan in Washington today to discuss the role the New York bank played in rival loan proposals.

J P Morgan, along with Chemical Bank, is an adviser to the Kuwaiti project, and had approached Eximbank to seek financing.

It is also one of the lead underwriters to the private sector loan that has now been adopted. In addition, the bank acts in general terms as an adviser to Eximbank on the financing of big projects, such as the one in Kuwait.

While Eximbank officials are reported privately to be angry about the turn of events, a spokeswoman for the agency said today's meeting had been called to find out what the bank could learn from the affair.

She accepted that the rival financial packages represented "an unusual situation", and added: "We want to know who did what, when and where."

J P Morgan, for its part, described as "outrageous" any suggestion that it had acted in bad faith. The bank said it had acted fairly in advising its client, the consortium which was constructing the plant.

J P Morgan and Chemical are believed to have approached Eximbank for finance in the autumn of 1994. A group of Gulf banks, led by National Bank of Kuwait, later approached the US advisers with its own loan package, beating out Eximbank's credit, which would have had the backing of US taxpayers.

"They [Eximbank] had more than enough time to look at it," said one official close to the successful banking group. The agency's officials were "dithering, and taking their time", allowing the rival loan to be put together.

Eximbank, meanwhile, said that, despite the rejection of its loan, its main objectives had been met since the finance would support US exporters who were among the biggest suppliers for the project's construction.

The Kuwaiti project is a joint venture between the US's Union Carbide and Kuwait's state-owned Petrochemical Industries Company, each of which have put up 45 per cent of the equity. The balance is held by individual public shareholders in Bubiyan, an investment company set up last April as part of Kuwait's embryonic privatisation programme. Construction of the plant, using Union Carbide licensing technology, has already started.

The bulk of production – 1.45m tonnes a year of ethylene, polyethylene and ethylene glycol – will be aimed at the fast-growing Asian market.

For National Bank of Kuwait – which is believed to have designed the financial package, negotiated the terms and conditions and packaged the entire transaction – the credit is a breakthrough in the financing of such big industrial projects.

The US underwriters on the loan, beside J P Morgan, are Citibank and Chemical. Regional underwriters are Arab Banking Corporation, Arab Petroleum Investments Corporation (Apicorp), Gulf International Bank and its parent Gulf Investment Corporation, and the Arab Investment Company.

Domestic Kuwaiti underwriters consist of Gulf Bank, Al-Ahli, Commercial Bank of Kuwait, and Burgan Bank. Kuwait Finance House is responsible for a $200m tranche of construction finance above the $1.2bn.

The remainder of the cost of building the plant will be covered by the equity partners.

The $1.2bn loan will be syndicated in two parts. One, a $500m loan maturing after 10½ years, will be syndicated locally in Kuwait, while the remainder, maturing in 8½ years, will be shared among regional and international banks.

Pricing of the loan is not known, although it is understood to be similar to terms which were being discussed with Eximbank.

Mr George Karan, managing director of Chemical Bank's Bahrain office, described it as "adequate for this transaction".

Other bankers, who requested anonymity, confirmed that the underwriting group was complete.

Business frets over Caracas curb on bonds

By Raymond Colitt in Caracas

Many Venezuelan businesses fear dollars will be increasingly difficult and costly to come by following last week's government restrictions on Brady bond trading in local markets.

Control mechanisms imposed last week, which require investors to provide authorities with detailed financial information and to hold locally purchased Brady bonds for at least six days before selling them, led to a virtual collapse of the Brady bond market. The average volume of bonds traded daily plummeted from $40m-$50m (£27m-£33m) to about $2m on Wednesday.

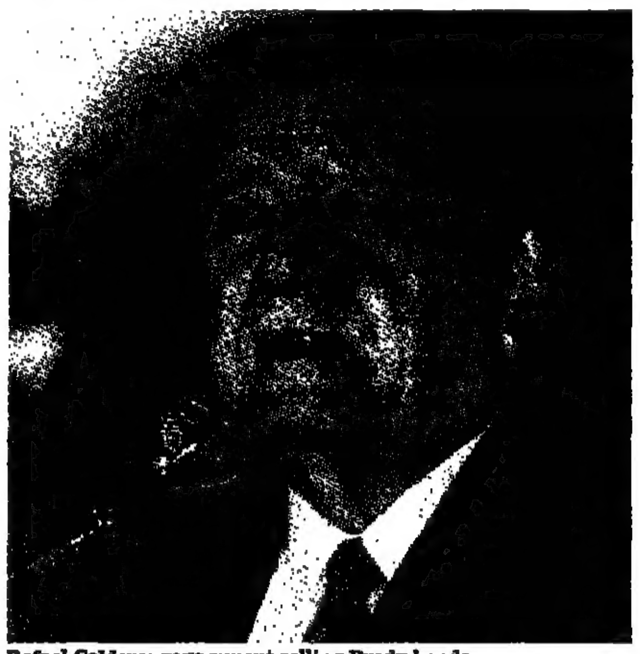
Trading in Venezuela's Brady bonds – financial instruments issued in exchange for distressed commercial debt – was legalised in June and turned into the principal mechanism to acquire foreign currency, which is otherwise only available by application to the state. Brady bonds bought in Venezuela for bolivars are sold in New York for dollars, with the ratio between the two prices establishing a parallel exchange rate.

Days before the regulation was imposed, President Rafael Caldera's government had been selling Brady bonds in an attempt to narrow the gap between the official exchange rate of 290 bolivars to the dollar and the parallel rate, which peaked at 390 bolivars to the dollar two weeks ago.

In a communiqué, the Ministry of Finance said the Brady bond market was being used as a camouflaged currency market and the new measures were aimed at regulating it.

"We are not prepared to accept speculative gains of any sort in the currency market," said Mr Louis Matas Azocar, finance minister.

Many fear the new regulations will lead to a depreciation rather than a strengthening of the bolivar, by limiting access to dollars. As a result it would be more costly to service corporate foreign debt, pay for imported goods, or travel abroad.



Rafael Caldera: government selling Brady bonds

One broker in Caracas said he was bemused by the regulations. "Companies desperate for hard currency will turn to the black market, which is less transparent than the Brady bond market was. Contrary to its intentions, in the end the government will have less oversight and control."

Mr Alejandro Salcedo, president of the Caracas stock exchange, said he favoured the increased controls but had asked the government to annul the six-day resale ban as "it infringes investors' rights to buy and sell securities as they please". Intervention in the currency market could send the wrong message to foreign investors, he added.

However, other observers said the restrictions made trading difficult but not impossible. They believed trading volume would soon recover.

"Acquiring hard currency will now be more costly and more bureaucratic, but where there is demand there will be supply of foreign currency," one financial consultant said.

Fair-treatment accord buoys telecoms talks

By Frances Williams in Geneva

World Trade Organisation talks on liberalising telecommunications markets have made headway on one of the most crucial issues – the need for regulatory guarantees of effective competition in markets dominated by a single, usually state-run, operator.

A "reference" paper drawn up by the main trading nations, and discussed by the 48 countries taking part in the WTO negotiations last week, sets out a series of regulatory principles that would ensure fair treatment of companies seeking to enter the market for voice telephony and other basic telecoms services.

Although the paper is still tentative, telecoms negotiators believe the regulatory issue is unlikely to pose a serious threat to the chances of reaching an accord by the April 30 deadline.

However, bilateral talks on specific commitments by countries to open their telecoms markets have made slow progress, and trade diplomats warn that the success of the negotiations is by no means assured.

There is particular concern that the US may choose to opt out of a multilateral agreement, as it did after financial services talks last year, in the belief that bilateral pressure will secure better market-opening results.

"The big uncertainty is what the US industry will sign up to," said one European trade official, dismissing suggestions that the European Union could pursue an accord without Washington, as it did for financial services. "No deal is possible without America because it's such a big player."

Top trade and telecoms officials will be in Geneva at the end of next month to push forward the negotiations. Some 22 new or revised offers are on the table, but all participants (the 15-nation EU counting as one) have been asked to submit formal draft country schedules by March 4.

The reference paper reflects concern that without unrestricted access to telecoms networks on reasonable terms new entrants will be squeezed by the dominant operator. Interconnection to the main telecoms network should be provided "under terms, conditions and rates and of a quality no less favourable" than the "essential facilities supplier" uses to supply its own services, the paper suggests.

It also proposes safeguards to prevent an "essential facilities operator" from bolstering its dominant position though anti-competitive practices, cross-subsidisation or the misuse of information.

'No deal is possible without the US as it's such a big player'

Other provisions relate to the need for transparency of interconnection and licensing procedures, and for independent regulatory and disputes settlement bodies.

Officials said late last week that there was a "considerable momentum" in favour of incorporating the regulatory principles in individual country schedules, rather than as rules applicable to all signatories to the telecoms accord.

This would allow developing countries to add regulatory commitments in step with progress towards market-opening, rather than require them to sign up to a detailed set of rules which run ahead of actual liberalisation.

They noted that all the WTO's 114 members were obliged by the world trade body's general rules on services trade to deliver on market access pledges, or risk a challenge through the WTO's dispute settlement mechanism.

Mexican banks entice investors

By Leslie Crawford in Mexico City

Foreign banks are taking a fresh look at Mexico's financial sector, raising hopes of a new wave of investment to recapitalise troubled institutions.

Fifteen financial groups, both foreign and domestic, are understood to be interested in the sale of Banca Cremi, a small bank taken over by the government in 1994 after fraud was detected. Banking regulators are reviewing the credentials of interested parties, and they expect the sale to be completed within three months.

Officials at the National Banking and Securities Commission said they were also finalising negotiations for the sale of a majority interest in Inverlat, Mexico's fifth largest commercial bank, to the Bank of Nova Scotia.

The government rescued Inverlat from insolvency in December, following the failure of its shareholders – including the Bank of Nova Scotia, which has an 8 per cent stake – to reach agreement on a recapitalisation plan.

Banking officials said Inverlat's sale was complicated by the poor quality of its loan portfolio and a capital shortfall estimated at hundreds of millions of dollars. They added the government was willing to absorb part of the bank's losses, but the exact amount was being negotiated with the Bank of Nova Scotia.

Other banks which have escaped government intervention are seeking foreign partners to help shore up capital and reserves.

Bancomer, Mexico's second largest, is believed to be in talks with the Bank of Montreal over a substantial minority stake. Unless Bancomer can find a cash-rich partner willing to part with $500m (£325m), it will miss out on a special programme allowing banks to sell their non-performing loans to the government in exchange for a commitment to recapitalise the institutions.

Rash lending policies before the peso's devaluation in December 1994, and the unhealthy habit of banks lending to their own shareholders, made the banking system vulnerable to last year's financial crisis and economic slump.

Last year the government spent an estimated 84bn pesos (£7.5bn), or 5.1 per cent of gross domestic product, in emergency capitalisation programmes and debt-relief schemes to avert the collapse of the banking system. Banking analysts estimate the price of additional assistance could reach 8-10 per cent of GDP over the next 10 years.

INTERNATIONAL NEWS DIGEST

Rocket attack angers Pakistan

President Farooq Leghari of Pakistan yesterday said his country would respond to Friday's rocket attack, allegedly by Indian troops, that killed 20 Moslem worshippers in the Himalayan state of Kashmir, controlled by Islamabad. However, he added that Pakistan would neither start a war with India nor retaliate against civilians in Indian-controlled Kashmir.

India denied that its troops had fired the two rockets which hit a mosque in the town of Forward Kahuta. A Jammu and Kashmir state government spokesman said they were Pakistani rockets that backfired.

India and Pakistan have fought three wars over the disputed state of Kashmir. About two thirds of the territory is controlled by India, while the remainder is under Pakistan's control. Both countries maintain thousands of troops along the Kashmir border, with occasional exchanges of fire. Western efforts to encourage Pakistan and India to seek a peaceful settlement have so far been futile. Experts in the west are growing concerned over the prospect of conflict between the two, both of which are believed to possess nuclear weapons. *Farhan Bokhari, Islamabad*

Paris considers fate of N-tests

The French government is expected to announce in the next few days whether its policy of nuclear testing in the South Pacific will end, following Saturday's sixth explosion in the Mururoa Atoll. President Jacques Chirac stated late last year that the policy of testing – which was reinstated following a moratorium announced by former President François Mitterrand – was due to end before the end of February.

The government, apparently unprepared for the international condemnation that testing triggered, planned to scale back the eight explosions originally planned. However, a final decision is awaited on whether enough tests have been completed. The decision will depend on an analysis by scientists of the most recent explosion.

The ministry of defence maintains that the tests are necessary "to guarantee in the future the safety and reliability" of French nuclear arms. The latest test sparked condemnation from Japan, Australia, New Zealand and the Philippines. The environmental group Greenpeace branded it scandalous. *Andrew Jack, Paris*

Egyptian MPs lose immunity

Egypt's newly elected parliament yesterday took the unusual step of lifting the immunity of six MPs from the ruling National Democratic party so they can face financial and criminal charges. Four of the MPs are accused of defrauding two local banks of millions of Egyptian pounds – Nile Bank and Dakahleya National Bank for Development.

Of the accused, Mr Tawfik Abdo Ismail is president of the state-owned Dakahleya Bank and head of parliament's planning and budget committee, while Mr Mohamed Azzam is married to the daughter of the privately owned Nile Bank's vice-president. Along with Mr Khaled Mohamed Hamid Mahmoud and Mr Ibrahim Aglan, they are accused of using their influence to obtain loans without offering legitimate guarantees.

Mr Ismail said he and his colleagues had requested permission to give evidence so they could clear their names. Of the other two MPs who face prosecution, Mr Ahmed Abaza is wanted in connection with a fatal shooting during November's violent and widely discredited elections, while Mr Abdel Aziz Mustafa is accused of killing a pedestrian while driving his car in Cairo. *James Whittington, Cairo*

Hanoi protester burns to death

A Vietnamese man yesterday died after setting fire to himself in a rare public protest against the government, eyewitnesses and police sources said. The man doused himself with petrol opposite Hanoi's municipal headquarters before setting himself alight, scattering pages from a document detailing his grievances, including allegations that the government had seized land belonging to him.

In Vietnam, individuals may not own land but are allowed to trade the right to use it. Public protests are rare in the country; in 1994, about 200 people demonstrated outside the same municipal building demanding compensation after a market in which they traded burned down. In December a football crowd went on the rampage in Ho Chi Minh City after a Vietnamese football team was defeated by a team from Thailand. *Jeremy Grant, Hanoi*

Coup in Niger condemned

The French foreign ministry yesterday called for a return to constitutional order in Niger following a weekend coup in the west African nation. France, a main aid donor and former colonial power, announced the suspension of civilian and military co-operation, while neighbouring Mali denounced the take-over as a blow to the cause of democracy in Africa.

Army officers staged West Africa's second coup this month – following one in Sierra Leone – saying political squabbling threatened economic reforms. The officers yesterday named armed forces Chief of Staff Lieutenant-Colonel Ibrahim Bare Mainassara as leader of the Moslem country and said the aim of the coup was to allow a fresh start and not to end multi-party democracy.

President Mahamane Ousmane and Prime Minister Hama Amadou, rivals in a prolonged power struggle, are in detention. State radio said the new military leaders had banned all gatherings and demonstrations. *Reuter, Niamey*

Telecoms regulator in pricing talks with BT

By Alan Cane in London

British Telecommunications, under new chief executive Sir Peter Bonfield, and Oftel, the industry watchdog, are locked in unprecedented last-minute talks to avert a confrontation that threatens to damage the whole UK telecoms industry.

The negotiations concern profound changes to BT's pricing structure and operating rules, and come to a head this Friday when BT must accept or reject the changes Mr Don Cruickshank, Oftel director-general, is proposing.

BT will not accept the proposals, which it says will give Mr Cruickshank unacceptably wide powers and undermine the group's profitability.

In marked contrast to BT's previous confrontational stance, however, Sir Peter – formerly chairman and chief executive of ICL – is taking a conciliatory approach to the talks, supporting the formal negotiations with a campaign to persuade institutional shareholders, industry analysts, rival operators and the government that Oftel's proposals must be modified.

He has told his management team that the tenor of the row must be raised from personal invective to professional issues. The company must explain its position rather than complain about the regulator, he said.

The talks, which ended inconclusively last week, resume this morning.

If a compromise cannot be agreed, the issues are likely to be referred to the Monopolies and Mergers Commission for arbitration, leaving BT and its competitors in a state of uncertainty for up to a year. This could have serious implications for investment in the industry.

AT&T, the largest US telecoms operator, said last week in announcing its plans for the UK that its attitude to investment would be be acutely influenced by the regulatory regime.

Relations between the watchdog and BT deteriorated sharply last year, leading to an MMC referral over number portability – a customer's right to keep a number when changing operator. Essentially, BT lost that battle, which may be influencing its present conciliatory attitude.

At one point it seemed that personal animosity between Mr Cruickshank and Sir Iain Vallance, BT's chairman, and Mr Michael Hepher, then BT's group managing director, had overtaken the professional issues, something both sides have denied.

The row centres on two Oftel proposals. First, Mr Cruickshank is asking for broad powers to seek out anti-competitive behaviour and deal with it. BT describes the proposal as a dangerous new form of regulation without right of appeal.

Second, he suggests that BT may be excessively profitable, hinting that he will set tough new price controls when the existing measures expire in 1997. BT, supported by a number of industry analysts, believes that its profitability could be cut by such a severe price cap that investment in the industry as a whole would be unattractive.

Politics in Britain Opposition party's lead slips as bipartisan approach to Ulster policy is tested

Irish PM raps London over peace process

By Robert Peston, Political Editor

Mr John Bruton, the Irish prime minister has written to Mr John Major urging him to use the conclusions of the Mitchell Commission as the basis for pursuing the Northern Ireland peace process – amid signs of a deterioration of relations between the Irish and British governments.

The Irish premier does not dismiss out of hand the British prime minister's suggestion that elections in Northern Ireland could provide a way out of the current difficulties in the peace process.

However, he makes it clear that he would prefer both governments to instead sign up to the Mitchell recommendations, which set out six conditions to which all parties entering formal negotiations on a Northern Ireland settlement would have to subscribe.

Mr Major has accepted the main thrust of the Mitchell report, but was disappointed that it did not propose that paramilitary groups should start decommissioning weapons before being permitted to join all-party talks.

The British government has said that the IRA and loyalist paramilitaries must start to surrender arms before their political wings can be allowed into all-party talks.

As an alternative to the Mitchell strategy, Mr Major said last week that an elective body could be set up to push through the peace process, without the need for decommissioning until negotiations commence.

A opposition Labour backbencher yesterday urged his party's leadership to end the party's bipartisan approach to Irish policy. Mr John Austin-Walker said: "The Labour party should help put the Peace Process back on track by backing Senator Mitchell's recommendations and giving its support to the SDLP and the Irish Labour party in the negotiations."

The prospects for an elective body receded yesterday when Mr John Hume, the leader of the Social Democratic and Labour party, said his party would "have nothing to do with such an election".

He outlined his position as Mr Dick Spring, the Irish deputy prime minister, lashed out at the British government, accusing it of attempting to foment a split between himself and Mr Bruton.

Polls paint a picture of slippage

There are signs of the opposition Labour party's slipping in the opinion polls in late January – taken before the row sparked by Ms Harriet Harman's decision to send her son to a selective school – though they do not add up to a Conservative upturn.

There is, however, a contrast between early and the late January polls. Those at the beginning of January were even more gloomy for the government than those of December.

Labour's lead went up by 7 percentage points in the ICM poll for The Guardian and by half a point in the Gallup poll for The Daily Telegraph. But the polls taken a week ago show a slip in Labour's lead – a negligible 1 percentage point in the Mori poll for The Times but 6 points in the NOP poll for The Sunday Times. Miss Emma Nicholson's conversion seems to have produced a brief reversal of the Liberal Democrats' slow decline – sharp in the early January polls, smaller later on.

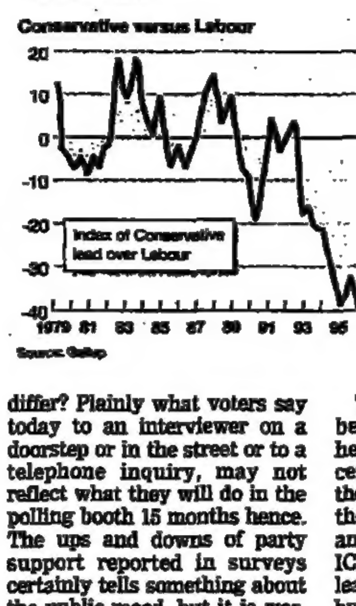
The best news for the Tories comes from local by-elections – but it is still not very good news. In the 100 contests since October the party has made a net gain of three seats and their share of the vote has risen by a point or two. Five local by-elections last Thursday offered a modest indication of Conservative recovery.

How far should one believe the polls? They are honestly conducted but what are they measuring? And why do they differ? Plainly what voters say today to an interviewer on a doorstep or in the street or to a telephone inquiry, may not reflect what they will do in the polling booth 15 months hence. The ups and downs of party support reported in surveys certainly tells something about the public mood, but it is worrying when the findings of similarly conducted polls show wide discrepancies. In the latest polls on the unweighted figures, Labour is 39.5 points ahead in Gallup and 26 points in Mori.

There would be great public cynicism about the polls if they were 13 points apart on the party lead on the day before the general election. The current divergence may reflect different interview dates or sampling procedures. It may be the product of voter uncertainty and volatility.

Pollwatch

Conservative versus Labour



Source: Gallup

'How would you vote?' (% of poll) Unadjusted percentages

Fieldwork	Survey	Con	Lab	Lib Dem	Lab lead	Change since Dec
Jan 5-7	ICM/Guardian	22	53	20	31	+7
Jan 3-8	Gallup/Telegraph	21	60.5	14.5	39.5	+0.5
Jan 19-22	Mori/Times	29	55	13	26	-8
Jan 18-19	NOP/S.Times	25	54	17	29	-6
	Crude average	24	55.5	16	31.5	

The confusion is enhanced because some newspapers headline the unadjusted percentages while others stress the figures after allowing for the behaviour of "don't knows" and refusals. In the January ICM poll this cuts Labour's lead by 9 points and for Gallup by 10.5 points. With such discrepancies, resolutely optimistic Conservatives can find grounds for rebutting the polls. But they can hardly deny that they still have an unprecedented mountain to climb in the next 12 months. The graph shows how much further behind they are now than in any of their previous three terms.

Anyone wanting to understand the next general election in detail should turn to the just-published *Almanac of British Politics*. It contains what one needs to know about the economic geography of each constituency, about its current MP and – if they were selected by last October – about any serious challenger.

It also, which is just as important, specifies the exact consequences of the redrawn boundaries which are adding eight members to the House of Commons. The net party balance has not been significantly altered, but local party prospects are often sharply different. That has lead to the "chicken-run" under which Mr Brian Mawhinney, Mr Stephen Dorrell, Mr David Amess, Sir George Young and now Mr Norman Lamont have fled from marginal or disappearing seats to safer pastures.

David Butler

The author is a psephologist and a fellow of Nuffield College, Oxford.

Companies told not to relax fraud controls

By Peter Marsh in London

Companies are increasingly being put at risk due to frauds perpetrated by their own managers, according to a survey today by some of Britain's leading insolvency firms.

The Society of Insolvency Practitioners says in its annual report exploring why companies fail that as Britain emerges from recession many businesses may be relaxing their financial controls.

That gives unscrupulous executives more opportunity to use illicit accounting methods to swindle their companies out of cash.

In the year to June 30 1995, internal frauds were given as the main reason for 7 per cent of all insolvencies involving companies with annual sales of above £1m, compared with just 3.5 per cent in 1993-94.

The comparable figure for 1994-95 for businesses with a smaller turnover was 1.5 per cent. This suggests, says the society, that relatively large companies may be ignoring the potential for swindles as their sales improve with the better economic climate.

While the bigger companies take their eye off this particular problem, "fraud is less of a threat to smaller businesses, many of which are managed by their owners," the report says.

Insolvencies through bad debts have come down as a proportion of failures from 11 per cent in 1993-94 to 6 per cent in 1994-95, counting only companies with sales above £1m.

This is believed to be due to improved cash flow in the business community generally, with fewer insolvent companies bringing down other businesses to which they owe money in a "domino effect".

Total insolvencies reported by the society's members in 1994-95 came to 18,902, after 21,118 in the previous year. The survey looked at the reasons for the collapse in roughly 10 per cent of the cases.

The sector suffering most from business failure was construction with 21 per cent of all collapses in the last year recorded, up from 19 per cent in 1993-94. Manufacturing accounted for 16.5 per cent of collapses, down from 18 per cent the previous year.

According to the report, insolvency practitioners through rescue operations such as administrative receiverships saved some 125,000 jobs during 1994-95, out of about 284,000 put at risk by companies' collapsing.

The estimated total turnover of companies which became insolvent in the year surveyed is £23bn, with their total liabilities out at £17bn.

UK NEWS DIGEST

Power station delay deals blow to coal industry

Plans to build the first large coal-fired power station in the UK since the 1970s have been shelved while the developers consider a switch to gas.

Brunner Mond, the chemicals company which is proposing to build the plant at its site in Northwich, Cheshire, is reassessing its plans following the recent fall in the gas price.

Meanwhile, it has emerged that Scottish Power is hoping to build a 1,000MW gas-fired plant near Leicester at a cost of about £400m ($604m).

Brunner's decision is a blow for RJB Mining, the company that took over most of British Coal, which had hoped to win the contract to supply the new plant. The moves will also heighten the coal industry's fears of another wave of gas-fired power stations which would further reduce the demand for coal.

existing generation plants with a 380MW combined heat and power plant would have increased its demand for coal fivefold to about 1m tonnes a year, or more than 2 per cent of the UK coal industry's current capacity. The company said that it had not made a commitment to switch to gas but added: "When we made the coal decision, economics were in its favour but the situation has changed over the last few months."

David Wighton, London

Row over N-plants continues

A British government initiative to resolve a conflict with British Energy, the future owner of the UK's modern nuclear generating plant, foundered last week, leading to increased concerns that its £2.6bn ($3.92bn) privatisation could be called off.

Mr Tim Eggar, the energy minister, met Mr Robert Hawley, British Energy's chief executive, on Thursday in the hope of persuading him to drop his opposition to the government's insistence that the company should bear the full cost – estimated at £8.5bn – of meeting future liabilities from the eventual closure of its nuclear plant.

However, British Energy has not moved, arguing that potential investors will not buy its shares at an acceptable price, unless the government is prepared to keep some of these future costs.

Ministers and executives are now deeply concerned that the privatisation could be abandoned. One senior member of the government said that "talk of a crisis is inevitable, if premature". However Mr Eggar insisted yesterday that "constructive negotiations are going on". Mr Michael Heseltine, the deputy prime minister, is expected to lead senior ministerial discussions of possible solutions to the impasse in the next couple of weeks.

Robert Peston, Political Editor

Big audience for World Service

The regular audience for the BBC World Service has risen to a record figure of more than 140m, according to the latest audience research. The total represents an increase of more than 5 per cent on last year's 133m figure- itself a record.The total excludes any estimate for countries such as Afghanistan, Burma, China, Cuba, Iran, Iraq and Somalia where it was not possible to carry out audience research.

Mr Sam Younger, managing director of BBC World Service, which broadcasts in English and 41 other languages, says that the new listening total meant that each listener now costs less than £1 a year.

Following last November's Budget the government announced plans for cutbacks over the next three years. In 1997/98 the reduction would amount to around £20m in real terms.

Raymond Snoddy, London

Food and drink set for upturn

Food, drink and tobacco sales in the UK are expected to rise sharply over the next few months as some signs of consumer confidence begin to reappear in the UK economy, says the Chartered Institute of Marketing today in its latest quarterly forecasts.

While the service sector is expected to strengthen, the institute said "manufacturing, the engine of growth in 1994 and 1995, has weakened considerably". According to the forecasts, which are based on postal questionnaires to a panel of marketing and sales executives, "the least optimistic sector is machinery and equipment, which is heavily dependent on export markets, especially in continental Europe".

In the first quarter of 1996 the CIM said it expected the rate of economic growth to be flat in cash terms and slightly down in real terms. Looking further ahead, the panel forecast growth would edge up from 6.1 per cent to 6.3 per cent.

Diane Summers, Marketing Correspondent

Cost-cutting 'no key to success'

British manufacturing companies believe that technological and market leadership is the key to international success, not cost-cutting, according to a survey of business opinion published today. In a poll of 200 directors and senior managers, some 73 per cent say that the UK's future does not lie in low-cost production: they say that competitive advantage lies in tailoring goods closely to customers' needs and in technological leadership. In the survey, organised by Computervision, the engineering computer and software company, managers say that skill shortages could hamper Britain's efforts to develo high added-value businesses. One in five said they were short ofengineers.

Stefan Wagstyl, Industrial Editor

Slowdown in orders and output

Small and medium-sized UK manufacturers have seen a slowdown in orders and output, in common with trends in the rest of the economy, according to a survey published today by the Confederation of British Industry, in conjunction with Pannell Kerr Forster, the accountants.

The survey found that over the past four months output among the 869 companies in the survey, all with fewer than 500 employees, grew at the slowest rate since late 1993. A slightly more cheery finding is that small to medium-sized companies seem to be generally less gloomy about economic prospects than larger businesses, and are more likely to take on new staff. Many of the companies in the survey said they expected to step up spending on staff training and investment this year.

Peter Marsh London

Hanson to develop $750m new town

By Andrew Taylor, Construction Correspondent

Construction of a £500m ($755m) new town is to start this summer. It will be one of the largest private sector schemes since the start of the Canary Wharf office development in London's docklands in the mid-1980s.

The development of Hampton – the Anglo Saxon word for "fortified homestead" – near Peterborough in Cambridgeshire is being promoted on 2,500 acres of worked-out clay pits by Hanson, the conglomerate which owns London Brick, the country's biggest brick manufacturer and owner of the site.

The group will this week announce that it has agreed terms for the first commercial development, a £15m food superstore by Tesco on eight acres of the land. The 64,000 sq ft store is planned to open in spring 1997.

The development signals the start of the construction phase for the privately financed new town. It should provide 5,200 homes, 400 acres of commercial land for offices, factories and warehouses providing up to 12,000 permanent jobs, four primary schools and a secondary school, a 400 acre country park and extensive shopping and leisure facilities.

The development, which has taken a decade of planning, site clearance and land restoration, is the biggest property project to be undertaken by Hanson. More than 2m cubic metres of earth have had to be moved and a 165,000 tonnes refuse tip has been moved from one of the former clay pits.

Hanson has spent £25m and expects to invest more than £100m in land preparation including providing roads, water and sewerage links. The group will not construct schemes itself but will be selling land for commercial, industrial, retail and residential developments to other companies.

Property consultants Jones Lang Wootton and Healey & Baker have been appointed to mount an international marketing campaign for commercial and industrial sites, while Bidwells, a local estate agency, has been appointed to market the housing land.

The Tesco store will form part of a 280,000 sq ft retail complex to be known as Serpentine Green. Negotiations with several other leading retailers are currently under way.

Some 296 acres have been set aside by Hanson for a wildlife reserve to house a colony of 30,000 great-crested newts – the biggest group of this protected species in Europe – which are being moved from elsewhere on the site.

The plan has been approved by English Nature, the government watchdog, but has been opposed by the Worldwide Fund for Nature.

THIS WEEK

Imperial gossips declare open season

While Britons gossip over the antics of their royals, another royal family on the other side of the world has become the centre of more muted and respectful speculation.

The question on many Japanese minds, judging from a stream of articles in popular magazines, is whether their crown princess will in 1996 be blessed with a child.

Princess Masako married Crown Prince Naruhito, future occupant of the Chrysanthemum Throne, three years ago. It might not be inappropriate, hazard the gossips, for the royal couple now to consider the matter of an heir.

Should Masako-sama and her husband fail to produce one, women's magazines are pondering whether it might be a good idea to change the law to allow a female to ascend the throne for the first time since the 18th century, to the benefit of Prince Naruhito's niece. Reintroducing female succession has even been touched on by the ruling Liberal Democratic Party, which in the end decided to leave well alone.

Princess Masako occupies a similar place in Japanese hearts to that once held in British ones by the Princess of Wales before the gilt was so brutally knocked off her marriage to Prince Charles. But the parallel ends there. In all other respects, the two princesses could not be more different.

Masako-sama did not start her royal career as a naive young thing. A graduate of Oxford and Harvard, she speaks five languages and was surfing ahead in the foreign ministry's fast stream, the division in charge of US relations.

More important, the status of Japan's imperial family has proved more durable than Britain's. Witness the restraint with which the Japanese gossip about their royals.

Imperial gossip has been a growing feature of popular magazines since the death of former Emperor Hirohito in 1989 paved the way for

DATELINE

Tokyo: Conservatives fear media exposure, as in Britain, will put the dignity of Japan's royal family in danger, writes William Dawkins

his successor, Akihito, to allow the family to become a little – but only a little – more visible. By British standards, the tittle-tattle that came with the extra exposure is bland.

The weekly Shukan Shincho sets the tone by arguing that the young couple's child-bearing plans are of legitimate national interest. As the world's oldest hereditary monarchy, stretching back almost two millennia, the imperial family's first duty is to ensure continuity, argues Shukan Shincho.

Shoichi Saeki, a literary critic, quoted in the Shukan Bunshun, another weekly, adds that royal families all over the world are more publicly exposed, so Japan may as well accept the trend.

Conservatives, not least in the LDP, lament that exposure brings loss of dignity. They worry, says the Japan Times' court reporter, that "something akin to the British royal family will come about."

Most Japanese accept the imperial family as the symbol of state. The semi-religious status still accorded to the emperor, spiritual head of the Shinto ritual, may be one reason. Political reality may be another. Criticism of the imperial family is dangerous, as a professor of Meiji Gakuin university discovered when he was threatened by right-wingers for condemning Hirohito's spiritual status.

Another factor is that Japan's royals appear to do less than their British counterparts to invite criticism. They get little chance to behave like human beings. Their affairs are rigidly controlled by the Imperial Household Agency, a formidable power judging by the sad success with which it has silenced Masako-sama since her marriage.

Then, she was ever so slightly controversial. To many Japanese, Masako-sama was one of the best of a new breed of capable young female professionals. But today, the agency, which once opposed the marriage on the grounds that Masako-sama denoted a dangerous openess, has cloaked her in formality. She is rarely heard in public.

The agency may have gone too

far for the mood of the times, but it recalls Prince Philip's view that Britain's royals might benefit by keeping their distance from the public.

Another factor that distinguishes Japan's and Britain's royal families is the relatively small demand on public finances which the Tokyo version is allowed to make.

Last month the so-called inner court, comprising the emperor, his immediate family and 100 retainers, was awarded by parliament the first pay rise for six years, up by 11.4 per cent to Y324m (£2m) per year. That was the average rise accorded to civil servants over the same period. Compare that with the roughly £80m that the British royals, with a household four times the size, draw from a much smaller economy. In Japan, conspicuous wealth goes with software tycoons and gangsters, not royalty.

There are exceptions to the Japanese imperial family's financial purity. One was last autumn's revelation that two relatives of the emperor – one now dead – had received money for lending their names to sports events.

The cash was immediately handed back. But the affair provoked debate in several newspapers – proof that the Japanese do not take their imperial family's dignity for granted.

FT GUIDE TO WHITEWATER

We've been *hearing* a lot about Whitewater, and Hillary Clinton, wife of the US president, has testified before a grand jury investigating the affair. The scandal doesn't go away. What's it all about?

God only knows. Certainly, very few Americans do. Many do not even want to know. Some believe *Whitewater* may be a cover-up without a crime. Perhaps neither the president nor Mrs Clinton did anything so very wrong to start with. But by trying to hide what they did – by concealing or possibly destroying records – they may have obstructed justice. But let's get back to basics.

Very well. Why "Whitewater"?

The affair takes its name from an obscure 1978 Arkansas property venture which went wrong, but don't worry about that.

Focus instead on Madison Guaranty, the Arkansas savings and loan association owned by Jim McDougal, the Clintons' business partner. Madison Guaranty collapsed under the weight of millions of dollars of fraudulent loans, costing the taxpayer $60m (£39m).

You've lost me. What has that got to do with the Clintons?

Just listen. Hillary Clinton's Little Rock law practice, the Rose law firm, represented Madison Guaranty, and the first lady *herself* did work for the bank, while her husband was state governor. She says that her work was "minimal", amounting to only 60 billable hours over 15 months. But the records show that she had at least 22 conversations about a proposed stock sale by Madison, including one with the Arkansas securities commissioner, who was an appointee of her husband.

She also had 14 conversations about the Castle Grande property deal financed by Madison Guaranty. This was a shady transaction which contributed to the bank's collapse. But Mrs Clinton had maintained she did no work on Castle Grande at all. When billing records turned up to show that she *had* done, the first lady insisted she knew it by another name . . .

That doesn't sound good. What is she trying to hide?

Quite possibly, nothing. But that is the point. The issue is less what the Clintons did in Arkansas in the 1970s and 1980s – the allegations cluster around a central charge that they abused their positions to make money – than whether they lied about it.

That's why it was so damaging to them when long-lost billing records from the Rose law firm – under subpoena for two years – suddenly turned up in the family quarters of the White House.

Hang on a minute. What do you mean they "turned up"?

That is what the independent counsel investigating Whitewater, Kenneth Starr, wants to know. Indeed, Starr was so cross about it that he took the extraordinary step of subpoenaing Hillary Clinton to explain under oath. How could crucial records, which had been actively sought for months, suddenly appear in an area of extremely restricted access in the White House?

Why are they covered in the handwriting of Vincent Foster, the deputy White House counsel who committed suicide in 1993?

Did the Clintons remove the records from his office on the night of his death? (A secret service agent says that Mrs Clinton's chief of staff, Maggie Williams, *did* take files away that night). While we are on the subject, did Foster really commit suicide? Was he Mrs Clinton's lover?

We'll leave those last two questions to the conspiracy theorists, because we have another scandal to deal with.

Gosh, this is complicated. Which one is this?

The sacking of the White House travel office. Mrs Clinton is alleged to have been behind the dismissal of lifelong travel department employees so as to replace them with cronies from Arkansas.

She originally said she played no role in the sackings, but a memo from a former White House aide, released earlier this month, suggested she was the prime mover.

None of that is illegal, but it is unsavoury, and raises further uncomfortable questions about Mrs Clinton's veracity.

None of this seems to add up to a row of beans. Aren't we simply looking at a political vendetta against the Clintons in an election year?

It could be. Certainly, the Senate Whitewater committee cannot even pretend to be impartial. Its chairman, Senator Alfonse D'Amato of New York, happens to be one of the campaign chairmen for the Republicans' Senator Bob Dole, Mr Clinton's chief rival.

But Kenneth Starr is a different matter. He is a Republican, but also a lawyer of formidable reputation who would not want to be seen abusing the office of independent counsel by hounding Mrs Clinton. So there must be more to it than politics.

Won't it all fade away now that Mrs Clinton has testified before the grand jury?

Nobody knows. She hasn't said whether she will be called to testify again. But remember, the Senate Whitewater investigation is still on, as is a parallel enquiry in Arkansas.

At the very least, Republicans will make sure the first lady remains an election issue. At present, she is as much of a political liability to her husband as Newt Gingrich, the firebrand speaker of the House, is for the Republicans.

You ought to keep this little guide to Whitewater. Snip it out right now. Whitewater will run and run.

Patti Waldmeir

PEOPLE

Awaiting rock music's new messiah

Christopher Parkes meets the Los Angeles agent who sees a golden age approaching

Bill Elson goes to heavy metal rock concerts in a suit and tie, so it is a surprise to find him in his swanky Wilshire Boulevard office in Los Angeles in jeans and a jolly, lumberjacky sort of shirt.

It is even more surprising to hear a veteran of the glory days of rock 'n' roll confidently predict the imminent arrival of a second "golden epoch" of popular music – complete with a new "messiah".

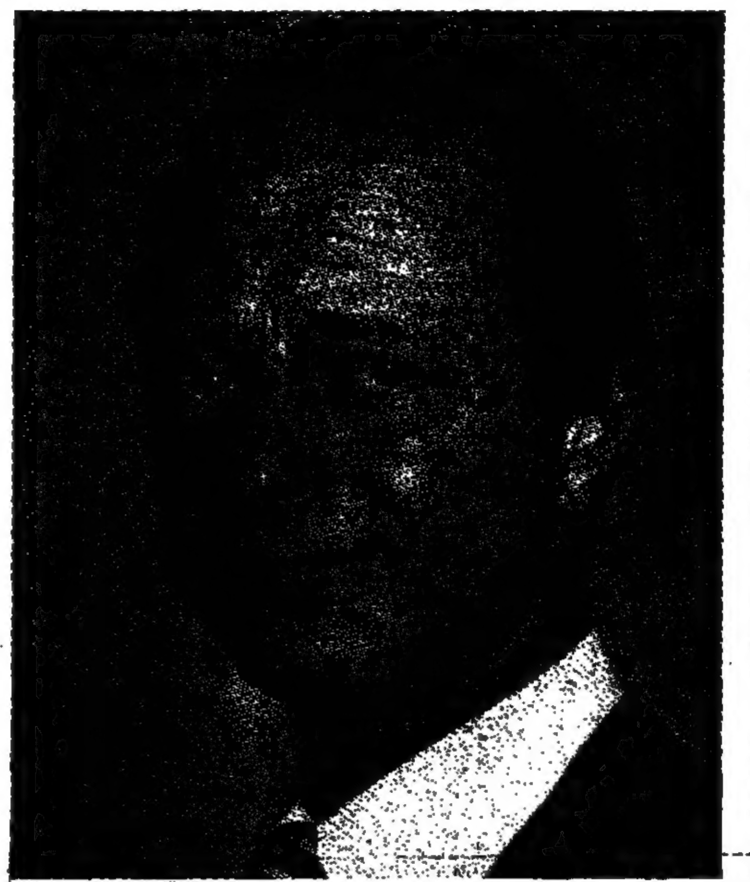
Naturally, this phenomenon will not be an "icon" like Elvis, explains Elson, 51, who once represented Janis Joplin, the Doors and Jefferson Airplane. The messiah will be more "a voice . . . an influence", like Bob Dylan. He will probably be white; his voice will most likely be benign; and Elson wants to be there to greet him – if not to represent him for 10 per cent of the gross.

A music agent since the mid-1960s, Elson has been head of the music division at the International Creative Management talent brokerage for more than 10 years.

More recently, he represented Def Leppard, Paul McCartney, Bob Dylan and Metallica. But he admits he took his eye off the score in the late 1980s, and refocused two years ago to discover that most of ICM's class acts had defected, effectively gutting his business. He says "agents serve at the pleasure of their clients. Forget that and your professional life expectancy drops off sharply."

Unusually in an industry not famed for its forgiving nature, Elson was given carte blanche to act by Jeff Berg, ICM's cerebral head, and has since restructured and rejuvenated the music division. In the process he has mused extensively on his thesis on the second coming, and recites it with a practised air.

He believes there is a mass of humanity steaming up America's demographic freeway, whose like



Bill Elson: "Agents serve at the pleasure of their clients"

has not been seen since the baby boomers – a culturally and socially cohesive group with a common cause in music.

The post-war US birth rate peaked at 4.3m in 1958, recalls Elson, then fell to around 3m before recovering in 1989 to 4m, where it is apparently holding. Now, as the baby boomers totter into their fifties, the vanguard of this new group is making its presence felt as its mid-teen membership swells.

Although Elson suggests we are seeing the "beginnings of erosion," by his own account the 30-year dominance of popular culture by its founding generation seems to be ending rather more dramatically.

"As recently as two years ago, the biggest touring acts in the US were all older than 45: the Eagles, the Stones, Barbra Streisand and Pink Floyd," says Elson. But last year concert ticket revenues dropped 28 per cent to about $800m – not because there were fewer concerts but because ticket prices fell as the market flexed to allow in the youngsters.

This clearly hurts. "It's almost inconceivable in a society like ours to think of a product going down in price," says Elson. But this "demographic by-product" is a reflection of the ending of the baby boomers' cultural tyranny.

Bands and singers with large teenage followings recognise that their audiences – young, unemployed or still at school, and largely without cars – cannot afford typical prices of $25 (£16.50) for a concert ticket, $20 for a T-shirt and $5 for a Coke. Green Day, fronting one of last year's big hit tours, accordingly charged a maximum $12.50 per backside and sold 8m seats.

"Five to 10 years down the road from now, we will see a 1960s' transition simply because the sheer numbers [of people of similar age and tastes] will bring it about," says Elson.

In a tactful aside he talks of "doing all we can to maintain the careers of our mature clients . . . who may not work baseball stadiums but maybe opera houses instead."

He believes the effects of his "statistical inevitability" hypothesis may also be seen in music radio where US broadcasters have long focused most of their attention on the 21-to-49 age group. Now, new programming segments are dedicated to the 25-and-younger set.

Elson believes that the extended bout of turmoil in the record business – a period characterised by mergers, management coups and many élite sackings – stems partly from the uncertainties generated by the new demographics, and partly by the techno-spectre of online, downloadable music threatening lucrative revenue streams in the manufacture and distribution of albums.

The "detritus" of 1980s debts preoccupies management, which would be better employed planning for the long term. But sadly, notes Elson, the industry's policy of extracting short-term performance with three- to five-year contracts militates against real effort to prepare for the longer term and the second golden epoch.

A sign to watch for? "A rebirth of interest in lyrical content," says Elson – music with a message. Listen out, he adds, for music which will speak to and for a generation bound by the common experience of broken homes, unemployment, maybe drugs, and a common desire for leadership.

Elson concedes that the new voice may be "a dark voice", but he suspects not.

"We are coming to the end of a cultural depression in the 1980s when values were raped and pillaged," he claims. "The newest music shows a concern that is exciting to see."

So is this not a good time to get out? After all, the entire founding team of Creative Artists Agency, the pre-eminent Los Angeles talent shop, last year left for pastures new and/or richer. Elson himself removed older hands in his shake-out at ICM.

He even volunteers the memory of how Jefferson Airplane's refusal to trust anyone older than themselves resulted in the average age of record company executives dropping 20 years in 18 months.

But on the assumption that he does not fall victim to aggressive ageism, Elson intends to stay.

"Having been involved in the first revolution and not really understanding or being able to enjoy what was going on, I very much want to be a part of this one," he says. "I want to savour the experience."

N NAMES IN THE NEWS

Russian banker with a taste for risk-taking

To prosper in the wild and wonderful world of Russian banking requires an ice-cool head, a natural appetite for risk-taking and a proven ability to cultivate the right people, writes **John Thornhill in Moscow**. Mikhail Khodorkovsky, who heads the Menatep financial group, exhibits all three characteristics to a fine degree.

Known to his friends as Misha, Khodorkovsky has been among the most effective of the new generation of youthful capitalists who have helped to turn Menatep into one of the most powerful financial groups in Russia.

The extent of his influence was revealed last week when it became known that he had persuaded the government to take a small stake in his bank in exchange for the rights to manage substantial packages of shares in a wide range of industrial enterprises. He is understood to be especially close to Oleg Soskovets, the hardline first deputy prime minister, who is rapidly consolidating his position within President Yeltsin's administration.

The bespectacled Khodorkovsky, whose hobbies include collecting fountain pens, may talk softly, but he certainly carries a big stick.

In its early years, Menatep developed a reputation as one of Russia's most aggressive banks. At 32, however, Khodorkovsky is mellowing and appears prepared to play the long game from his plush new offices in one of Moscow's leafier districts.

To this end, Menatep has invested in a wide array of industrial companies and last year won control of 78 per cent of the shares in Yukos, the giant oil concern, in a controversial auction which it was itself managing. Rival bankers now grudgingly concede the bold and risky deal may offer spectacular returns.

Talking up Fokker

Ben van Schaik, the embattled chairman of Fokker, the Dutch aircraft maker, is nothing if not an energetic salesman, writes **Ronald van de Krol in Amsterdam**.

With the company's future very much in doubt, he has proved tireless in trying to sell a single but compelling idea to the Dutch public: that without Fokker, the industrial future of the country will be in serious trouble.

So far, however, 51-year-old van Schaik, once head of sales at Mercedes' truck unit in Germany, has not managed to sell the idea of a rescue package. The Dutch government and Fokker's parent, Daimler-Benz, failed to prop up the company earlier this month, ultimately forcing Fokker to seek protection from its creditors. However, van Schaik is tirelessly continuing his campaign to find new partners or new backing, or both.

In the process, the man who was appointed chairman of Fokker by his former employers in Germany has emerged as a true Fokker man, and the company's very public face. It is a far cry from his image when he took up the job in 1994, when he was generally seen as a Daimler-Benz hired hand, doing the bidding of Fokker's parent, where he had spent most of his working life.

Trained as an engineer, he has worked in sales for Mercedes-Benz in the UK, the Netherlands and Germany.

Still, van Schaik himself certainly had an inkling of what he was letting himself in for. While he hardly foresaw the company's grave financial problems, he knew he could not remain anonymous in a country where Fokker was a source – and symbol – of national pride.

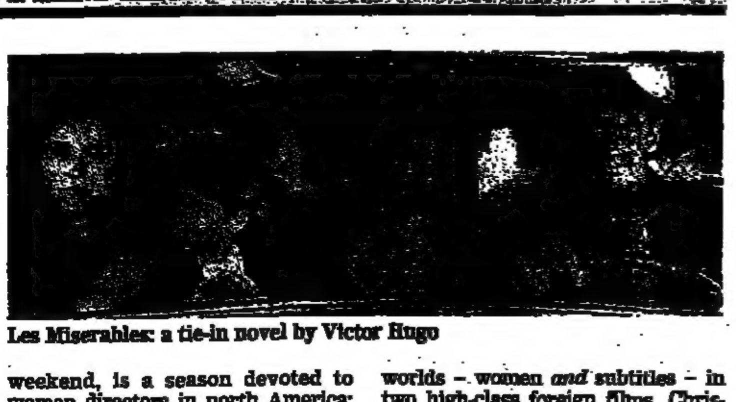
Just weeks after taking up the post, he remarked: "It is clear I will attract more than average interest in the Netherlands... Being chairman of Fokker is almost like having a role in public life."

FILM AND VIDEO

You have seen the musical and hummed the hype. You may even have read the tie-in novel by Victor Hugo. Now comes *Les Miserables* on screen. Amazingly for a film by Claude *Un Homme et une Femme* Lelouch, who seared on our brains the image of slow-motion lovers tripping through surf to wrap-around music, it has had good reviews. Be warned, though: it is three hours long with subtitles.

Lots of flickering white words at bottom-screen in *Katia Ismailova*, too: Valerii Todorovsky's praised French-Russian drama about the murderous female known to opera lovers as the Lady Macbeth of Mtsensk. But the flickering white stuff billowing through *Father of the Bride Part 2* is not subtitles but left-over wedding rice from Part 1. Steve Martin and Diane Keaton launch once more into tears, laughter and family crisis.

February's big event at London's National Film Theatre, starting this



Les Miserables: a tie-in novel by Victor Hugo

weekend, is a season devoted to women directors in north America: the first part of a global survey designed to argue that a woman's place is behind the viewfinder. *Wanda, Sleepless In Seattle, Yentl, Go Fish*. Rich and interesting, even if you are wary of programmes built around positive discrimination.

Those seeking a good movie in unsubtitled English should visit the best thriller in London: *Seven*.

On video you get the best of both worlds – women *and* subtitles – in two high-class foreign films. Christian Vincent's *La Separation* has Isabelle Huppert as a woman in a suffocating relationship. And in Antonioni's *L'Avventura*, voted the second greatest film ever made (after *Citizen Kane*), Monica Vitti drifts gorgeously through *la tutta Sicilia* as a woman finding her soul as she loses her love.

Nigel Andrews

MUSIC

Tori Amos brings a new inflection to the term rock babe in the sleeve to *Boys For Pele* (EastWest), in which she is seen suckling a pig. Amos has always worn her eccentricity with conviction. This is a woman whose American fan club is called Upside Down. Listening to her latest work, one knows how they feel. There are interesting ideas – unexpected keyboard effects, a dash of industrial noise, multi-layered vocals – but the lyrics are obscure, and the songs overcooked. Still, there is scarcely a dull moment and if the genre of rock album-as-primal-scream appeals, it is rarely achieved so tastefully.

Courtney Pine extends his repertoire of carefully crafted eclecticism in *Modern Day Jazz Stories* (Talkin Loud), blending traditional saxophone with modish touches of sampling. The album works more convincingly as a jazz work than as an experimental hybrid, as if Pine has to be dragged into the unfamiliar terrain of multi-cultural mangling. Some fine playing all round.

The contrast between the Russian soprano Galina Gorchakova and the Swedish mezzo-soprano Anne Sofie von Otter could not be more marked: Gorchakova, singing arias by Verdi and Tchaikovsky on Philips, is rich, fruity, thrillingly dramatic, ably supported by Valery Gergiev and the Kirov Orchestra. Von Otter is poised, elegant and typically intelligent in her interpretation of songs by Mozart and Haydn, including the latter's "Arianna a Naxos", on Deutsche Grammophon's Archiv label. Melvyn Tan accompanies on fortepiano.

The cellist Mstislav Rostropovich starts the year with two lesser known, modern concertos on the Teldec label: Renand Gagneaux's *Triptyque*, and, written for him, Rodion Schedrin's *Sotto Voce*. Seiji Ozawa conducts the LSO.

Peter Aspden

MANAGEMENT

Emerson has been called the electric motor world's best-kept secret. **Andrew Baxter** reveals its philosophy

Only a smooth ride will do

Some bid-hungry companies revel in the thrill of a takeover tussle and the capture of an unwilling target, followed by its subsequent dismemberment or "turn-round" 1980s style.

But that is not the way they like to do things at Emerson Electric. The venerable St Louis-based industrial group has never made a hostile bid and, says Jean-Paul Montupet, executive vice-president, "tries only to acquire good companies. After a takeover there is no urgency to do anything drastic. Instead we can take time doing things that make sense".

The absence of controversy partly explains why the Emerson division for which Montupet has responsibility – industrial motors and drives – has grown from annual sales of about $600m (£375m) in 1989 to a projected $2bn-plus this year without attracting much external comment.

Acquisitions, mostly of European companies, have ranged from big, established names such as Leroy-Somer (LS), France's largest producer of electric drives and motors, to the tiny Leeds company Switched Reluctance Drives (SRD), developer of an innovative type of drive.

But the lack of attention also reflects Emerson's reticence in promoting itself as a group – at least beyond Wall Street, where it wins approval for its 38 consecutive years of increased earnings per share.

In the market place, Emerson's corporate profile has taken a back seat in favour of brands such as Rosemount and Fisher Controls in process control, Copeland in compressors for refrigeration and Buehler International in sample preparation equipment.

Consequently, the world's largest producer of electric motors, whose 78,900 employees produced sales last year of $10bn, is also the world's "best-kept secret", according to Trevor Wheatley, chairman of Control Techniques, the Welsh-based drives producer which Emerson bought last January.

The driving force behind Emerson's growth has been a very effective system of stewardship for its businesses, based on a combination of tight monthly and quarterly financial reporting and a long-term planning system. "They are very good at all the mundane things that no one talks much about," says one Wall Street analyst. "They plan, they execute, they document and they benchmark."

As Charles Knight, Emerson's chief executive, put it in a 1992 Harvard Business Review article: "We believe we can shape our future through careful planning and strong follow-up . . . we adhere to few policies or techniques that could be called unique or even unusual. But we do act on our policies, and that may indeed make us unusual."

Management is heavily decentralised and the corporate staff is small – Emerson Europe managing director Olivier Delage has a team of just 10 at his London headquarters. Because businesses are in good shape when they are acquired, they are normally kept intact and top management retained.

"Each is a profit centre and is driven by its five-year plan, and that gets the businesses moving rather than lumping them together," adds the Wall Street analyst.

The careful approach to business-building has characterised the acquisitions in Montupet's division, but now Montupet is looking for ways to project Emerson's name and image more strongly. He hopes to create an "umbrella identity" for the division which would show customers that the individual businesses are part of a larger whole.

On the surface, he admits, it might look as if Emerson had been "pulling in pieces from here and there" to build the division. In fact, he says, the industrial logic of the takeovers has been very strong, as it has been elsewhere in the group.

The acquisitions began in 1989 when Suzanne Hommet, granddaughter of LS's founder, wanted to sell her stake of nearly 30 per cent. Montupet, who was then LS's North American director, was put in charge of finding the right partner for the French company. LS already owned a big US distribution company for Emerson products, and Montupet thought Emerson would make the best fit.

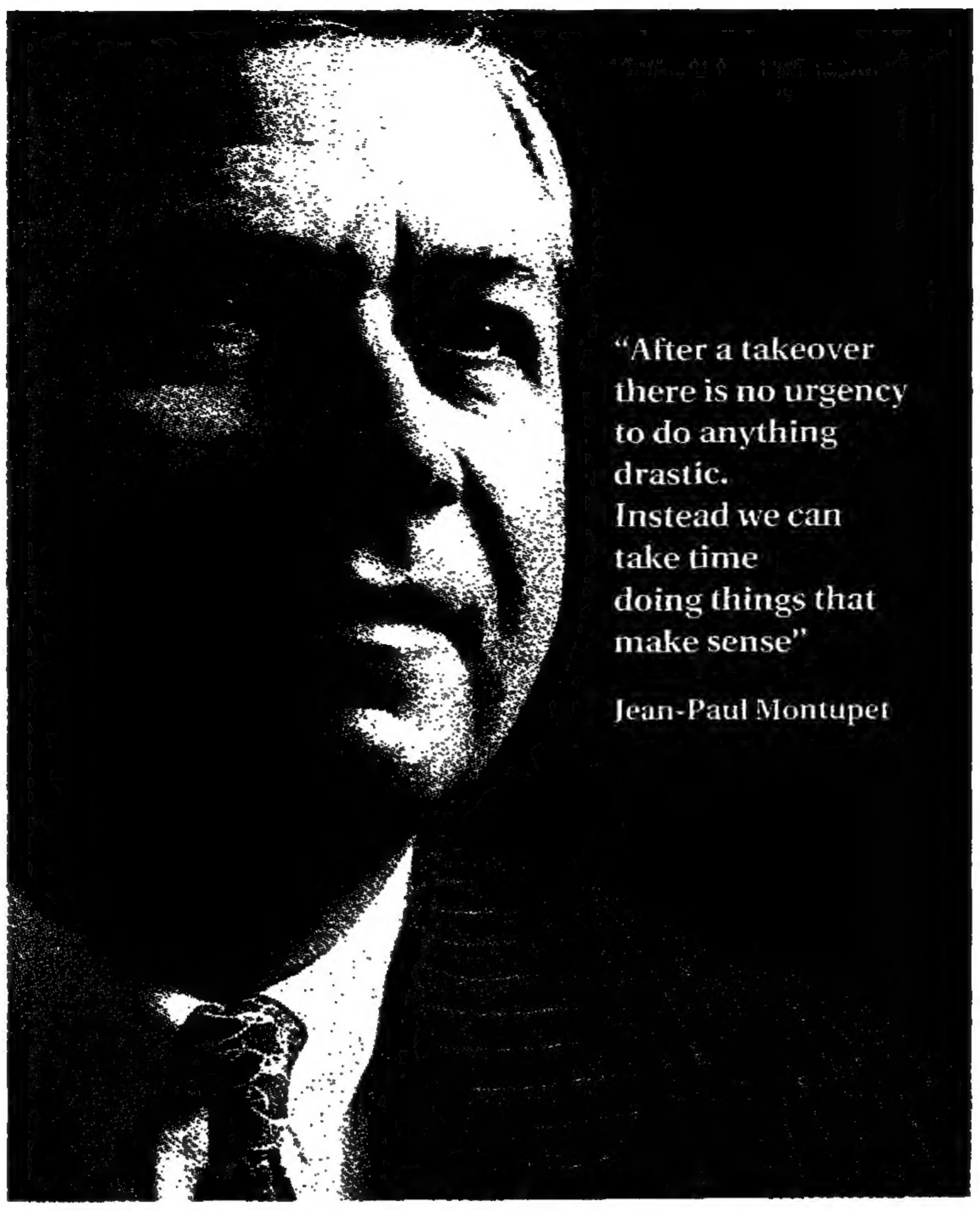
From the mid-1980s, Emerson had been looking for ways to become more international, and the rationale for the takeover was essentially geographic, he says. Emerson's US Electric Motors business had a good position in North America, but practically no presence overseas. LS, which cost Emerson FFr2.9bn (£380m), brought a strong presence in Europe.

The following year, the division bought McGill, a well-known US bearings producer, and added it to its power transmission business. Then in 1991, Emerson sold 80 per cent of its ICD Drives business to CT in return for a 29.9 per cent stake. A three-year standstill agreement followed, but Emerson had stated from the outset that it would like to buy all of CT, says Wheatley, and the agreed bid valuing the UK company at £204m was "not a lot of surprise".

Wheatley says the synergies between the two companies are obvious: "Every drive goes on to a motor, although not necessarily the other way round." CT had been growing fast before the takeover, but ownership by Emerson would also free it from the restraints of a "somewhat limited balance sheet," says Wheatley, and allow it to increase its rate of expansion.

The CT deal more or less coincided with Emerson's takeover of F.G. Wilson, the privately owned, Northern Ireland-based producer of standby diesel generating sets. The takeover stemmed from a visit by Montupet and Delage. "It was almost a cold call," says Montupet. "We told them it would be a good idea for them to join us."

Emerson was attracted by the growth prospects for standby gen-



sets, in developed and developing countries. FGW, like CT, had been growing fast and exporting to more than 100 countries but, says Delage, was beginning to find it difficult, as a relatively small private company, to manage its expansion. "They liked our philosophy of providing them with the management tools to help them run the company better," says Montupet.

Financially, the big acquisitions have contributed to Emerson's profits from day one, says Montupet, and in some cases the performance has exceeded expectations.

The industrial synergies extracted from the takeovers have created more profits. In motors, even though North American standards differ from those of Europe and most of the rest of the world, LS and USEM are co-operating on engineering, and using the same design software.

In the market place CT is winning business from other parts of Emerson, and providing leads for its sister companies. These kinds of opportunities are "really quite significant," says Wheatley.

Further synergies could yet be developed. CT would manufacture for SRD – which Montupet views as an "investment in the future" – if Emerson decides it wants to begin producing the switched reluctance drives. Other potential link-ups remain sensitive. Observers have noted that LS makes alternators, and FGW uses alternators in its gensets – but the Ulster company currently sources its alternators from elsewhere.

Emerson's planning conferences – at divisional and group level – are aimed at identifying such synergies, along with growth prospects for the businesses. But, says Montupet, Emerson is careful not to impose them too quickly on newly acquired companies. "We would slow down the planning process if we thought it was causing too much disturbance," he says.

At the same time, because Emerson is so decentralised, it can ensure that the planning process does not smother them in bureaucracy.

This is particularly important, says Montupet, when approval is being sought for an acquisition or other expansion. "We can get something approved in less than a week. I don't think we are slowing down these companies. We're not stupid, and we paid a lot of money for them."

From a strategic point of view, therefore, little changes for a company in the initial aftermath of an Emerson takeover. The US group does, however, quickly introduce its financial reporting system.

For managers at LS, the benefits of the system quickly became apparent, says Montupet. During the recession of the early 1990s, it became important to have more sophisticated management tools than were previously available. "The management have said that this enabled them to make a much better job of getting through the recession."

One of the techniques used by Emerson is a system of contingency planning called ABC budgeting, where the A budget applies to the most likely scenario, the B budget to a possible lower level of activity, and so on. The technique, says Knight, is particularly helpful in an economic downturn: "We are not paralysed by bad news because we've already planned for it."

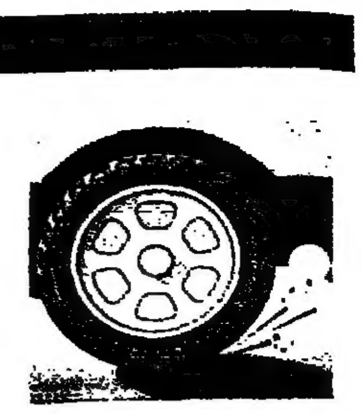
Emerson's rigorous approach to managing its businesses has worked well, but now Montupet's division is seeking a way to move one stage further, and Wheatley has been given the task of developing the umbrella identity over the next two years.

"The challenge is to find a way of creating a global image without losing the brand names," says Montupet.

There are solid commercial reasons for bringing the businesses closer together. With so many industrial synergies between the products, Montupet wants to make it easier for the customer to buy complete packages. "You haven't helped him if he has to place an order with five divisions." For this reason, Montupet is particularly interested in developing the concept of the drive centre, which has been the spearhead of CT's growth.

The centres, which are relatively small, inexpensive and quick to set up, provide sales, engineering and servicing expertise close to the customer. The aim would be to broaden the product range on sale at the centres, further improving their viability and thus enabling expansion of the network to be accelerated. The centres, says Montupet, could be an important tool for boosting the division's sales in less developed, but fast-growing regions such as the Pacific rim.

As for further acquisitions, Montupet says the division is "fairly well-covered but we always keep looking". There are no purchases in the offing, but Germany, where Montupet would like a bigger presence, and eastern Europe could be next on the list.



FAST TRACK

Video Arts

The corporate action is set in the late 1980s. Encouraged by "cheap" money, go-go financial markets and the prospect of rich personal rewards, a leveraged buyout is arranged.

Within months, though, interest rates have doubled, economic growth starts to slow. Debt repayments gobble up strong operating cash flows and investment plans suffer. The discomfort lasts six to seven years.

It could be an outline script for one of those management training videos in which actor John Cleese stars as the man who gets it all wrong. Except that the above synopsis is a real life description of the recent history of Video Arts, the company which produces these videos and which Cleese and Sir Antony Jay founded in 1972.

Showing the sort of timing one might expect from comedians the two sold out in 1989 to a management team led by Tina Tietjen and Margaret Tree, with financial backing from Barings, NatWest and 3i. The price was £43m, of which £30m was interest-bearing debt.

That heavily geared episode came to an end this month when the company was acquired by MediaKey, a new multimedia group into which former Dorling Kindersley managing director Richard Harman has also injected specialist international book packager Marshall Information. MediaKey has just raised £24m from institutional investors – dealings start today – and at the placing price of 60p the combined group is valued at just under £33m.

Free of debt thanks to the flotation proceeds the prospects for Video Arts suddenly look more encouraging. Synergies may be possible in editorial, software and distribution through the Marshall connection, but the big opportunity is to use VA's established brand to stake out a new position in the fast-moving multimedia business and education market. Currently estimated at $186m (£116m) in Europe, it is forecast by Datamonitor to grow to $7.7bn by 2005.

In addition to video production skills – the backlist comprises more than 150 of its own titles in 27 languages – there is a deal with Philips to adapt 30 existing programmes to the interactive CD-i format (considered ideal for training purposes). Video Arts is also working on several CD-Rom titles, though film quality problems must first be overcome in this medium before its full potential can be realised. The final area is video-on-demand where Video Arts has an agreement with BT to work on the trial of a training channel for a new fibre optic information service to be launched by BT in the City of London this October.

Tietjen and Tree, joint managing directors, claim that Video Arts is well placed to take advantage of the coming "corporate classroom", as well as meeting growing client demand for training which can be effectively delivered "on site". There is still an untapped reservoir of ideas relating to interpersonal skills – not least for a North American audience – and opportunities to branch out into material for schools.

Competition is tough, with Melrose (part of BPP) well established in CD-i in the UK and a host of software rivals jostling to add content provision to their technical skills.

Tim Dickson

A workforce grown weary of clichés

Lucy Kellaway

"Tiresome and boring wholesale company seeks indolent people with a total lack of service-mindedness for a job that is completely without challenge. If you're still interested, sit down. Have a cup of coffee. Relax. If you can be bothered, call." This advertisement appeared earlier this month in the local newspaper in Sandefjord, a little town in southern Norway. It stuck a chord: 130 people replied. By contrast an earlier ad from the same company in the same paper calling for a hard-working, enthusiastic salesman at a fast-growing distribution company failed to get a single response.

Possibly Sandefjord has the world's highest concentration of idlers and layabouts. But I suspect that if the same pair of ads were to appear in the London Evening Standard the results would be identical.

The lesson is not that employers have to mount a silly stunt in order to attract the attention of job seekers. It is that people looking for jobs have become immune to the cant, waffle, euphemism, exaggeration and cliché that fills the recruitment pages.

Employer after employer is described as a "leading" this or the "world's premier" that or having "an enviable record of growth". Every job is a "uniquely challenging position" and every ideal candidate has to be "high calibre" with "assured interpersonal skills" and on a "drive for continuous improvement". I have never met anyone who would consider themselves to fit that bill. And if I did come across such a person I certainly would not give them a job.

A word of advice to Gerry Robinson: don't look quite so pleased with yourself, and for goodness sake, don't open your mouth so wide. Since your victory over Forte last Tuesday there have been too many pictures of you with jaws gaping in a victorious grin. It is (just) all right for sportsmen to make the triumphant gesture when they have scored a goal or won a gold medal, but businessmen, no matter how pleased they are feeling, should present a more dignified front.

Back to the subject of advertisements and humbug, the new ad for the merged Chemical and Chase takes some beating. The picture shows five middle-aged men standing with posed smiles on their faces. Some have jackets off, most have hands in pockets. They are trying hard to look relaxed but succeed only in looking profoundly ill at ease. The accompanying copy begins: "For Years We've Envied Each Other's Capabilities From Afar. Now That We're Merging, We Can Simply Do It From Across The Hall."

The agency responsible for this schlock should be told that a) when writing a sentence it is usually only necessary to start the first word with a capital letter and b) this is not how mergers work. Executives at rival banks do not admire each other's talents, they resent and distrust the opposition and never miss an opportunity to undermine them. And when, through economic necessity, they are forced to merge they jostle for position, and resent and distrust each other even more.

As for the rest of the text, talking about the merger as a "leveraging of our leadership positions to identify new opportunities for your business" – if that brings in new clients then banking must be an easier occupation than I thought.

The inability to call a spade a spade is not confined to the advertising industry. Jeremy Hardie, chairman of W.H. Smith, last week put out another profit warning and said his company had "not handled the creation of shareholder value at all well in the last four to five years". This strikes me as an odd admission to make.

In plain English it means that performance has been bad, very bad indeed. But by talking in code about "handling shareholder value" he manages to imply that there might be some other unspecified thing, equally worthwhile, that the company was handling pretty well.

So British Gas has responded to its PR disasters of the last few years by hiring a big name from the oil industry and creating a new position for him as director of communications. It is the height of corporate fashion these days to elevate PR to the boardroom. The argument goes that modern companies require a shining reputation which can only be achieved by good communication. That means that PR must no longer be an afterthought. In turn, that is taken to mean that a board director must be dedicated to the subject.

Possibly this approach makes sense, but still I have a nagging worry that this hysteria about communications is missing the point. Surely many companies come unstuck not so much because they have failed to put enough time and effort into communications, but because the policies and actions they are communicating are themselves nothing to write home about.

Behind its classical facade the Amos Tuck business school is ousting the traditional case study approach to business courses in favour of on-line data

School on the wire

One traditional business school is installing the latest technology in preparation for the next millennium, writes Della Bradshaw

When busy executives fly off for a long weekend business course they are likely to get an update in the very latest business theories from world-class academics. Also participating will be a good handful of similarly minded managers. But when they put the theory into practice back at the office they are usually on their own.

Such isolation could be coming to an end. From this spring the Amos Tuck School of Business Administration at Dartmouth College will use communications technology so that course members can keep in touch with both peers and academics – after they have returned to their offices.

"So much of the learning happens when you try it out," says Paul Danos, dean at Amos Tuck. "It's all trial and error."

The initial three-day course, "Leveraging Core Competencies", will be held on the Dartmouth campus at Hanover, New Hampshire. The 30 or 40 students will then be able to keep in touch with former colleagues and faculty for the subsequent six months, using videoconferencing and electronic messaging.

The most important factor is that the communications need to be well-controlled from the centre, says Danos, with both the students and the faculty setting aside time for the "meetings".

Perhaps an even more significant use of technology by the Ivy League institution will be in its plans to modernise its residential MBA course – famous as the first MBA course to be held at a US business school.

Instead of the traditional perusal of out-of-date corporate case studies, the bread and butter of many an MBA course, students at Tuck will be able to study live data or recent information fed into the school from co-operating commercial organisations. Every student will be working with up-to-date information supplied by a real corporation.

Data which is several days old is still innovative in business school terms, says Danos. "Sometimes you could be dealing with two-day old data, but all of it is more timely than what took two years to get into a textbook."

Danos is still in discussion with the corporations that will provide the data and – as important – partially finance the scheme. But he believes publishing, high technology and communications companies will be eager to participate. "If we had 20 companies co-operating it would work well," he says. "I visualise a partner having a worldwide network so Tuck becomes a module on that network."

As well as the expertise that the companies will gain from co-operation with Tuck they might also be in pole position to recruit graduates for their organisations. At the moment 60 per cent of Tuck's MBA graduates go into the highly paid professions of consulting or investment banking – the average percentage for US business school graduates in these areas is just 20 per cent.

To put the new cabling and computer structure in place the school is planning the first wave of a two-year, $5m (£3.2m) refit over the summer. This will give every student on its MBA course a laptop computer which can be plugged into the main network whichever room the student is in.

In addition, the school will refurbish many of its study areas to incorporate a videoconferencing classroom, a financial analysis room and a data analysis laboratory.

Although technically feasible Danos points out that implementation of the latest computer technology will mean Tuck has to double its computer support staff. "It's not simple to do. Conceptually it can be done, but when you have to switch on your machine from one feed to another it can be difficult."

More important than the technology are the services it will bring. In the financial analysis room, for example, there will be live information feeds bringing in financial data; in the data analysis room dedicated terminals will enable students to carry out three-dimensional modelling using information fed in from outside corporations.

The videoconferencing technology could eventually ensure that students are taught by international academics, whose lectures could be beamed in via satellite from Europe or east Asia.

Within 10 years all business schools will be providing similar facilities, says Danos, but Tuck can prove its technology credentials now as the school is relatively small – it has fewer than 400 MBA students, compared with several thousand at some of the larger US schools.

By the next decade Danos also believes that the growing popularity of the Internet data will mean that it will be used for sending the information rather than the digital phone lines of today. "Many people's New Year's resolution this year was not how to lose 20lbs but how to use the Internet."

NEWS FROM CAMPUS

Satellite television serves up school work

Three new business schools have joined the likes of Carnegie Mellon and Penn State to supply executive education programmes via live, interactive satellite television to corporate offices around the US.

The three schools, Notre Dame, the University of Texas and the Centre for Creative Leadership, will broadcast programmes on the Executive Education Network from the spring. They join the eight business schools which have been broadcasting programmes since late 1995.

According to Exen more than 50 of the Fortune 500 companies have subscribed to the network to train their middle managers, who can interrogate instructors over the network.

Exen: US, 214 373 1601.

Managers' mind games win prizes

British managers with a competitive streak can join in the Institute of Director's Strategic Challenge, a computer-based training game intended to identify potential company directors.

The challenge is open to teams of up to six people. The first stage is for the team to draw up a five-year plan for a fictitious company. The subsequent five stages, each of which occur one imaginary year later, involve the team adapting the plan due to unforeseen incidents – a change in interest rates, for example.

The five best teams – according to criteria such as profitability and customer service – will attend a final in September.

IOD: UK, 839 1233.

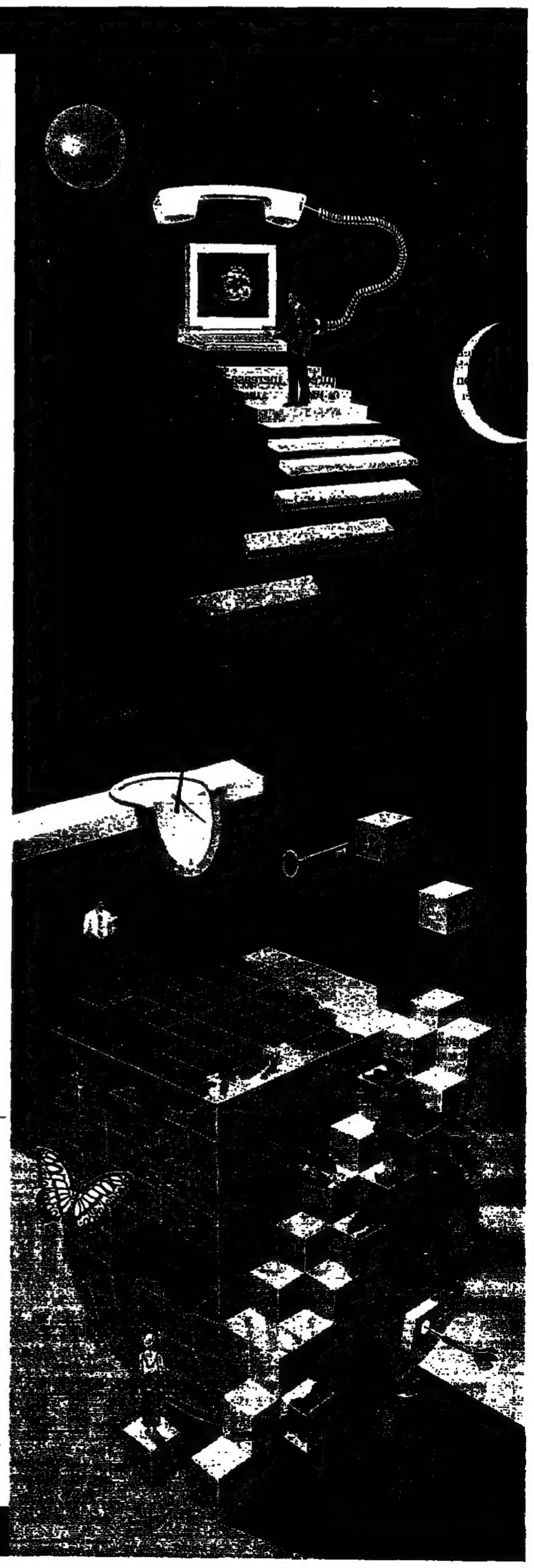
Combining student life with the high life

Managers who fear studying for an MBA would mean a return to the spartan accommodation and canteen food of their student days, should consider Liverpool Business School's executive MBA course.

The course is held over nine weekends a year at a country hotel with culinary, leisure and conference facilities.

The fees for the three-year course are £8,500, which includes food and accommodation.

Liverpool Business School: UK, (0)151 231 3417.



BUSINESS TRAVEL

Aids epidemic warning

There are two separate epidemics of HIV infection, according to Professor Max Essex of the Harvard Aids institute. Although cases are levelling off at about 2m infections in western countries, there are between 15m and 20m people infected in Africa and Asia and the number is rising, Prof Essex told a conference on infectious diseases in New Delhi.

He said Aids was contracted in the west mainly through homosexual contact and intravenous drug use, and was spread by HIV1-B. But Aids in south Asia and sub-Saharan Africa was caused by HIV1-A, C and E, which are contracted almost entirely by heterosexual contact, he said.

Safety threat denied

Kazakhstan's national airline has denied that safety has been threatened since Russia stopped providing it with air navigation information on January 1.

The service was cut because Kazakhstan Airlines was not paying its bills, Interfax, the Russian news agency, said.

For the past three years Kazakhstan has subscribed to an international service while also purchasing Russia's information.

The airline is struggling for survival. The state committee on anti-monopoly claims that it has violated seven laws, including one against setting prices, and has demanded that the airline be broken up into one international and five regional companies.

Hong Kong visa plea

Hong Kong legislators have urged the UK to allow visa-free entry for Hong Kong residents after the colony reverts to Chinese rule next year, warning there could be a backlash against British interests otherwise.

Britain and China have signed an agreement that should reassure foreign countries about the security of new passports to be issued in Hong Kong after China takes over in 1997. The British government is expected to decide in the next three months whether it will continue to offer visa-free entry after 1997.

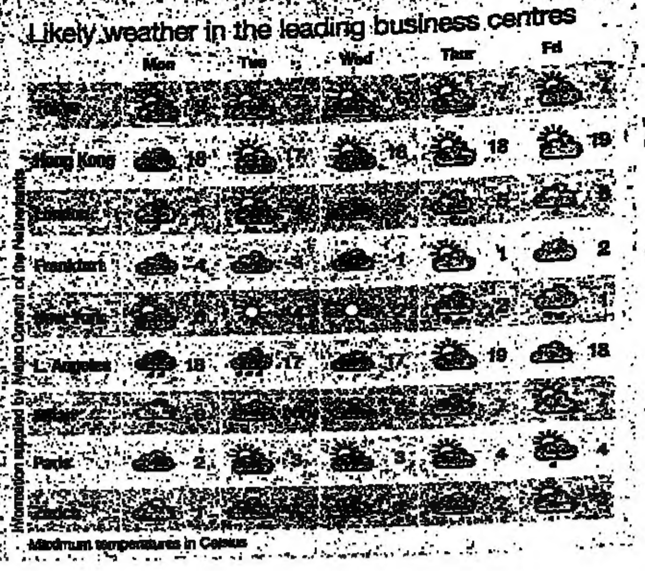
Virgin loses top slot

Swissair has been voted airline of the year by frequent travellers for the first time since 1989, writes Kate Bevan. Readers of the UK's Executive Travel magazine demoted Virgin Atlantic, which had won several times. As well as the overall prize, Swissair won awards for best first class, economy class and short-haul business class, while its Crossair subsidiary took the best regional airline award.

Best airline to East Asia, and to Australasia/Pacific, was Qantas. Emirates, which was runner-up for the overall award, was best airline to the Middle East, best long-haul carrier, and was considered to have the best food and wine, in-flight entertainment, magazine and cabin staff. Best international airport was again Singapore's Changi, while Dubai was voted best duty-free shopping airport.

Ronay speaks out

Food critic Egon Ronay has warned that a plan to regulate tipping in UK restaurants could be little more than a recipe for higher meal prices. The Earl of Bradford, whose parliamentary proposal has been endorsed by the House of Lords, says outlawing hidden extras – such as cover charges – will make restaurant bills clearer. But in a letter to The Times, Ronay says he is not convinced that regulating tipping would be good for poorly paid restaurant staff – or customers.



Airlines and hotels are catering for executives with children, says **Victoria Griffith**

A teddy in your luggage

It has been years since Diane Keaton made cinema audiences laugh when she dragged her child on high-powered business trips in the movie *Baby Boom*.

Today, taking children on business trips is no longer the stuff of farce but a reality for many travellers. The Travel Industry Association of America found recently that 15 per cent of business trips in the US in 1994 involved children.

Several factors are fuelling the trend, including two-career families and more single-parent households. "The numbers will only go up, because sometimes it's just not possible to leave the child behind," says Dorothy Jordon, editor of the newsletter Family Travel Times.

Many working parents have come to see business trips as a way of squeezing in precious family time while showing their offspring the world. Rodney Friedman, publisher of a lifestyle newsletter called The Wellness Letter, says that taking his two daughters on business trips has been a good experience.

"I have to travel a lot, and by taking them along I get to see more of them," he says. "I even bring them to meetings. They keep themselves busy with their colouring books and reading material."

The travel industry is starting to respond to the rising number of executives carting nappy bags along with their laptops, and an increasing number of hotels are catering to family travel needs. Concierges at many top US metropolitan hotels can book licensed baby-sitters at the drop of a hat. Children's menus abound, and room service often comes with special treats.

Organised activities for youngsters are becoming increasingly popular. The Hyatt hotel chain, for instance, runs a Camp Hyatt programme that involves days out: seeing alligators in Florida or sand-painting in Arizona.

"The programme was started a number of years ago for the children of leisure travellers, but recently we've started to notice more children around hotels in non-holiday destinations and during non-holiday periods," says Ann Lane, head of Camp Hyatt. "We figured they must be with their parents on business." The company is now expanding its programme to include many urban locations.

For executives with a big budget there are plenty of services for children. The Ritz-Carlton hotel in Boston has a special children's suite. A separate room offers small beds and a crib, a bathroom with miniature toilet and sink, a huge stuffed Curious George toy in the corner and lots of toys. An intercom connects the room to the master bedroom, and all electrical outlets are protected with safety plugs. In New York, The Drake in Manhattan hands out a special welcoming package to children and delivers milk at bedtime.

Even airlines are beginning to pay more attention to their smaller customers. Air France, for instance, offers a child menu on most flights through its Planet Bleu programme.

Yet travel with children can be hair-raising. It can also be a financial burden. "The parents tend to pick up the tab, even if they're on business, because they're too embarrassed to tell their companies that they had to take junior along," says Ann Lane of Camp Hyatt. Many parents also find it stressful to hand over children to daycare staff they know little about, and to entertain a disoriented child after a long day of meetings.

To ease the strain, Frederic Medway, a child psychiatrist at the University of South Carolina, who has studied children and travel, offers a few tips for parents:

- Plan ahead. Make sure you know what is available at your destination in terms of child-care services and special menus, but bear in mind that travel is unpredictable.
- Don't expect children to be better behaved on the road than at home. "Travel can be very stressful for children, so expect less co-operation than usual," he says. "It also helps to talk to the children beforehand so they have an idea of what will be expected of them."
- Schedule in some time to spend with children after business meetings. "A child who stays in the hotel the whole time is not getting much out of the trip," says Medway. "But if they get to visit the zoo or climb a tower one day, taking them along will be far more worthwhile."

Driven to despair

It happened to 56,000 UK drivers who summoned the Automobile Association's recovery service in 1994.

It happened to Richard Bledsoe, joint managing director of Alamo Rent a Car's European operations. And it happened to me.

Putting the wrong fuel in a car – unwittingly mixing unleaded and four-star, or diesel and petrol – is one of the top 20 reasons for breakdown, according to the AA, accounting for more than 1 per cent of its calls.

Hire companies and their customers – driving unfamiliar cars, sometimes with inadequate guidance – are especially at risk of committing the error. Because it can be an expensive mistake, many rental companies are now taking additional precautions.

Culprits are not limited to novices or the absent-minded. Certainly, as a frequent renter, practised in mastering all the positions in which reverse gear can be found, I felt like a fool when I discovered why my car had died on a wintry Saturday night in the shadow of Royal Liverpool Hospital.

"Have you run out of petrol?" asked the passerby who had helped me push the car out of the busy junction. No, I had just filled it up in Chester. Vainly, he tried to get the engine to turn over. Then he lifted the bonnet, looked up and said: "There are no spark plugs."

I had topped up a diesel car with half a tank of petrol.

The chill gave way to anger as we looked in all the familiar places – the dashboard, the steering wheel, the fuel cap and flap. No mention of diesel.

I went round the back, heart sinking, thinking the word would be emblazoned there in inch-high chrome. Nothing.

Because of an oversight when Alamo delivered the car, I had neither a rental contract nor even a tag on the key. Not a clue that the car was diesel. I didn't know whether to curse Alamo for expecting me to be a mind-reader or myself for not being sophisticated enough to have felt that it was a diesel.

But then, the Royal Automobile Club recovery driver told me, he had recently picked up another Alamo customer who had made the same mistake.

And *then*, Alamo's Manchester airport branch said that, in the absence of a national policy, it had already brought in its own procedures to minimise the problem. In addition to putting prominent labels on the key tag and fuel cap, the office requires the customer to sign a rental agreement – stamped "diesel" – accepting liability for mistakes.

And *then*, Alamo wrote to say that it was introducing similar procedures across the board in the UK.

Frank Armstrong, president of Alamo Europe, completed the repair job on my self-esteem by revealing that his colleague, Richard Bledsoe, had made the same mistake with his company car, soon after arriving from the US to head the UK operation.

So I was not alone, and nor is Alamo.

Budget Rent a Car says as many as four customers a month mistakenly put petrol into diesel cars hired from its busiest UK branch at London's Heathrow airport. Customers are told when they pick up a car that it is a diesel, and "diesel only" is clearly marked on the dashboard and fuel cap. If they put in the wrong fuel, they have to bear the cost of repairs.

This can be considerable. According to Peter Brill of the RAC, draining a diesel fuel system costs between £450 and £600. If seals and filters have been damaged, he said, "it's basically a new system, and that's thousands".

Diesel cars have been introduced in hire fleets because they are more fuel-efficient and give customers more choice.

One hire company, Eurodollar, says it plans to increase its number of diesel cars for those reasons, and is confident that warning customers will be sufficient to avoid mistakes.

But Alamo is going the other way. It will shortly phase out diesel cars from its UK fleet. Armstrong insists this is not because of fuelling mix-ups but because its main supplier no longer offers diesels at sufficiently attractive prices.

Clay Harris

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MEDIA FUTURES

High street dinosaurs wake up

Online prospects are making the banking industry restive, writes Vanessa Houlder

Eighteen months ago, the banking industry reacted with a mixture of fear and anger when Bill Gates reportedly likened it to the dinosaurs.

Yet few banks were paying much attention to the infobahn's potential for delivering banking services. Nor was there much consideration given to how existing business would be threatened if non-bank competitors got there first.

Gates has mollified the industry by clarifying his much-quoted remark, insisting that Microsoft, the company he heads, has no ambitions to compete with banks. Banks have avidly developed new ideas and expertise in delivering banking services online.

Their interest has been palpable in recent months, US banks competing with each other to provide content via the main online services and to sign agreements with online delivery organisations such as Microsoft, Intuit, Visa Interactive and MasterBanking. Alliances have formed in the payments sector such as those between Visa and Microsoft; and between MasterCard, IBM and Netscape.

On the Net, more than 100 banks have created home pages. Wells Fargo Bank, in San Francisco, has offered services including account inquiry and applications through its home pages. Cardinal Bancshares is launching a Net-based bank, called Security First Network Bank, which will have only one branch and no ATMs of its own.

Spending on electronic banking has grown at a compound annual rate of 150 per cent in recent years, although still relatively modest by comparison with the industry's total expenditure on information technology.

However, the industry has not yet established a clear lead over non-bank players, and could still be eclipsed, according to a year-long study by the Bank Administration Institute, an influential US banking research organisation, and the Boston Consulting Group, the management consulting firm. "If it [the banking industry] does not act with foresight and firm purpose, the prognosis is for a slow, long-term decline," it says.

The BAI/BCG report, *The Information Superhighway and Retail Banking*, does not disguise the complexity of the issues. There is "great uncertainty surrounding non-bank competition, consumer needs and technology". It says that banks should be prepared for "unforeseen (and unforeseeable) shifts, developments and setbacks."

Institutions have to decide whether to develop commercial online services, such as Microsoft Network and CompuServe, the Net, or proprietary banking platforms.

If they opt for an online partner, they will have to consider exclusivity and brand positioning. If they opt for providing financial services on the Net, they face questions about whether security will be sufficient or the network able to support the traffic envisaged. At present, most institutions use their home pages only for marketing.

The appeal of proprietary platforms is the absence of an intermediary, reassuring customers concerned about security and privacy. But so far, customers have shown little interest in this option, probably because many more options are available on the Net or commercial online systems. Institutions are considering offering proprietary platforms with Net links.

The strategic uncertainty for the banks is augmented by concern about what new competitors may be doing in creating new online payment methods that could eclipse cheques, credit cards, debit cards, ATM cards and cash.

The danger is that a competitor might become dominant in online payment systems. "For banks, payment systems could represent a Trojan horse because non-banks may be able to redefine the customer relationship by building a position of dominance in retail payments," says the BAI/BCG report. Banks must act fast, for some of their most profitable customers may adopt the new technology rapidly.

The belief that a sizeable proportion of wealthy customers will be keen to use online financial services stems from the finding that in the US, some 40 per cent of households with an income above $50,000 already have personal computers with modems. Research shows that these customers tend to look for convenience and time savings.

Online technology may also allow banks to improve the profitability of another segment of their customer base – younger, technologically sophisticated customers with relatively few resources, who might become more affluent as they grow older. Using online systems might increase profitability by cutting costs. Banks could use information about transactions to help them identify customers with higher profit potential.

The additional transaction information that would be generated by online banking could be invaluable to banks. But they may need to be careful.

Privacy, like security, is crucial if online banking services are to win customers' acceptance. The report highlights the possibility that a customer backlash against excessive use of data could lead to restrictive legislation.

Not everyone is likely to want online delivery. The BAI/BCG report says that older, less wealthy customers are unlikely to move online. They tend to avoid automatic teller machines in favour of personal service from a bank teller, and are less likely to have PCs with modems.

One conclusion is that telephone banking services – favoured by people wanting convenience and time savings – are likely to be more affected by online delivery than bank branches. Customers who are currently avid users of bank branches are unlikely to move rapidly to the new technology.

The promised increase in distribution channels poses problems. "Banks will need to turn this complexity and potential cost disadvantage into a competitive strength by delivering the value of convenience and ubiquity to customers," says the report.

Online delivery of financial services, with its uncertain economics, is a decidedly mixed blessing, says the report. But it argues that banks have some intrinsic strengths in tackling the issue.

Decisive, thoughtful action should secure banks a leading position, it concludes. As Bill Gates pointed out, the dinosaurs lasted for 200m years.

● *The Information Superhighway and Retail Banking. $150 for BAI members and $250 for non-members. From BAI, Department 77-6028, Chicago, Il 60678-6028, US.*

Tim Jackson

How the Net was used to trap a fox

Here are two versions of the criminal career of Kevin Mitnick, 32, a computer expert captured last February by the FBI and convicted of America's most highly publicised high-tech crime:

"I kind of in my own mind picture it as, hey, going to a video store and getting a copy of *Jurassic Park*, and making a copy of it. Their copy is still intact and untouched and unharmed."

"He was arguably the most wanted computer hacker in the world. He allegedly had access to corporate trade secrets worth millions of dollars. He was a very big threat."

The quotes come from two swiftly published books which paint a fascinating picture not only of hacking on the Net, but also of how hacking is covered by the media. For those who missed the story last year, Kevin Mitnick is serving an eight-month prison sentence for cellular phone fraud, and possibly faces other charges.

The definitive account of how he was tracked down is to be found in *Takedown: The Pursuit and Capture of Kevin Mitnick, America's Most Wanted Computer Outlaw – By The Man Who Did It* (Hyperion, $24.95).

Strictly, the title is incorrect: the book was co-written by John Markoff, a New York Times reporter. The chase began when Tsutomu Shimomura, a Japanese-born computer security specialist at the San Diego Supercomputer Center, found someone was using the Net to access his home computer. Shimomura wrote programs to observe the intruder copying his files and stashing them in mailboxes borrowed from unwitting customers of online services.

Setting up surveillance equipment in the offices of Netcom, a leading US Internet provider, Shimomura tracked the hacker to a town in North Carolina. With the help of phone companies and law enforcement agencies, he used caller ID to find the number of the mobile phone the intruder's computer was dialling in from, then used a scanning device to pin the blame on Mitnick.

The story, written in thriller-ese, opens with the hero hunched in a van at midnight outside the criminal's apartment, with Markoff of The New York Times in the back.

Like Sherlock Holmes, Shimomura finds the official agencies irritatingly flat-footed; also like the great detective of Baker Street, he has a Dr Watson in the form of an incompetent PhD student. Holmes kept up his energy with tobacco from his Persian slipper (and the occasional cocaine injection); Shimomura lives on a virtuous Californian diet of vegetarian burritos and take-away pizza. He wears in-line skates and a mountaineer's watch, and carries a gadget to read e-mail while at airports.

The book sets up the Aunt Sally argument that stealing software and destroying people's computer systems is not wrong

Shimomura's self-portrait via Markoff's pen is hardly flattering. Nominally employed by San Diego Supercomputer Center, he spends a lot of time carrying out lucrative consultancy jobs and getting others to fly him from a ski lodge in northern California to the scene of the crime.

Tagging along is his neglected girlfriend, who gave up an older man to follow him. The book's main analysis sets up the Aunt Sally argument that stealing software and destroying people's computer systems is not wrong, then demolishes it.

In the second book the point of view shifts from the hounds to the fox. *The Fugitive Game: Online With Kevin Mitnick: The Inside Story of The Great Cyberchase* (Little, Brown, $23.95) reveals that while Shimomura and his sidekick from The New York Times were trying to find him, Mitnick was on the phone to Jonathan Littman, a freelancer for the Los Angeles Times. Here the portrayal of the quarry is more plausible. In Littman's book, Mitnick is no Goldfinger. He is a clever but lonely, seedy fellow whose objective is more to tweak the noses of the computer establishment than to make money.

Bravado is his chief motivation: when Playboy magazine commissions Littman to write a profile of Mitnick, the hacker finds out by reading his e-mail and calls to offer an interview.

Littman's book devotes much space to the question of whether Shimomura and his fellow investigators broke rules to catch their man. But it raises two interesting points. First, how the friendship between Shimomura and Markoff affected coverage of the case. Littman chronicles mercilessly how Markoff wrote flatteringly of Shimomura without clarifying how closely they had worked together. Littman also reveals how Markoff's portrayal of Shimomura as a cybersleuth helped win the two men a $750,000 book contract. Second, Littman reveals how little divides the sheriffs of cyberspace from its outlaws.

With his gadget obsession, disdain for bureaucrats, businessmen, and the FBI, Shimomura resembles Mitnick more than he would like to admit. The big difference is that the computer expert on the right side of the law becomes a media hero, earns consultancy fees telling companies how to defend themselves, and has others pay his expenses and buy his equipment. The expert who does not inhabit a prison cell with six other men, and is reduced to writing pleas for help with a pencil stub, rationed to a single sheet of paper each day.

Tim.Jackson@pobox.com

Britain's educational software advantage already in jeopardy

Stephen McGookin on pioneering multi-media developments

Britain risks squandering the potential benefits of the educational software market, according to Sir David Puttnam, the film producer employed by US media giant Time-Warner.

"Suppose that in another year or two, or indeed tomorrow, the hard-pressed head teacher of a school has to choose between two multi-media products of particular relevance to the curriculum," he said.

"One is relatively low in price, tried and tested. It comes from the US or Australia, or perhaps somewhere else in the Pacific. The other is a relatively untested and fairly expensive product created in Britain. Which of the two is [he] more likely to buy?"

Speaking at a recent education technology conference in London, Sir David argued that Britain had the English language – "a sort of cultural equivalent of North Sea oil" – which should be used to best advantage.

His speech, sponsored by Lift – Learning for Life with Technology, an independent organisation to promote lifelong education – urged a mutually beneficial strategy combining politicians, educationalists and the creative industries to exploit areas in which Britain leads.

"We can genuinely claim to lead the world in animation, possibly the most significant of the new audio-visual technologies.

"We have some of the world's most talented computer programmers, including the most prolific creators of electronic games.

Sir David argued that Britain had the English language– "a sort of cultural equivalent of North Sea oil" – which should be used to best advantage

"And we have some of the most experienced and successful educational institutions and publishers. As electronic publishers, we are second only to the US."

Meanwhile, Anita Roddick, chief executive of environmental retailer The Body Shop, has said that using the Net as an educational tool can help create a workforce "that can solve problems in an innovative and creative way."

She was helping launch Biz:Ed, a new information gateway to the Net – the worldwide computer network linking upwards of 25m people – which is aimed at Britain's almost 1m 14 to 19-year-olds studying business and economics.

Attacking the existing UK curriculum, she said that if business education was seen as "fixating on financial success and ever-increasing productivity, we will have failed tomorrow's customers and tomorrow's workforce."

Biz:Ed will succeed, said Roddick, because it is "experiential" education, helping children to educate themselves and using their teachers as "guides".

The gateway service will offer updated business education resources, downloadable company case studies, briefings, and economic statistics, and will provide a "frequently asked questions" service from corporate organisations and professional bodies.

Those involved so far include: Unilever, BMW, the Inland Revenue, the Association of British Insurers, and the Financial Times.

Biz:Ed's role is to provide a "not-for-profit" student enquiry service. But corporate participants – whose material will be vetted by members of the Biz:Ed consortium – will be expected to pay for the opportunity to have their information, and a link to their own home page, accessible through the gateway.

An aim of the service, Roddick said, should be to "try to impart values and social responsibility."

● Biz:Ed is on the Internet at *(http://bizednet.bris.ac.uk:8080/)* Lift can be contacted at PO Box 1577, London W7 3ZT.

Cyber sightings

● First SATAN, now GOD. The Global Online Directory (*www.god.co.uk*) from Firecrest is the first European-based search engine. Since Net searches usually have to be routed through a US-based server, this should mean faster results for UK users. The Church of England might regret not registering that domain name now....

● A Beta version of Software Publishing Corporation's ASAP WebShow – which allows Netscape 2 users to organise graphically-rich reports and slide shows – is available for downloading from *www.spco.com/asap/asap.htm* Sample presentations are also available at the company's homepage.

● Foreign exchange consultant Altra Management Services has put up Inside the Market – a daily forex newsletter – at *www.textor.com/markets/altra* The site is part of The Square Mile, which has a good business intelligence section and some interesting links.

● *www.trading.com* is a useful reference page for global traders, with a commodities section and an equities page under construction. Nice backgrounds, but they take forever to load up. Once you're in, though, there is a good set of well-organised links.

● The UN's Economic Commission for Latin America and the Caribbean (*www.eclac.cl*) promotes social and economic development, co-ordinates technical assistance and conducts research on the trade, environment and population of the region. Only in Spanish at the moment; they're working on an English-language version.

● Snow reports for European and US resorts, provided by the Ski Club of Great Britain, can be accessed through the e-zine Anorak at *www.anorak.co.uk* by clicking on the appropriate part of the map. The Alex archive is worth a look, too.

● Red Pepper (*www.rednet.co.uk:80/redpepper*) is a left-leaning political magazine with lots of good writing. The letter of commendation from "T*ny Bl*r" is hilarious.

● The Asia Foundation (*www.asiafoundation.org*) is a private grant-making organization which promotes US-Asian understanding and awards more than 1,500 grants annually for training and study-related projects. The site has details of current programmes and background material.

Meanwhile, details of the Harvard Project on Asian and International Relations and its 1996 conference in Seoul can be found at *http://hcs.harvard.edu/~hpair/*

● Beyond description – and presumably beyond the sense of humour of the US Secret Service – is Dan Burford's Exploding Heads page (*www.tvo.com/~gilmore/head*), featuring graphic representations of Bob Dole, Bill Gates, Boris Yeltsin and heavy-weight political commentator Rush Limbaugh ("Who says I don't have an open mind?"). Great fun, if you like that sort of thing.

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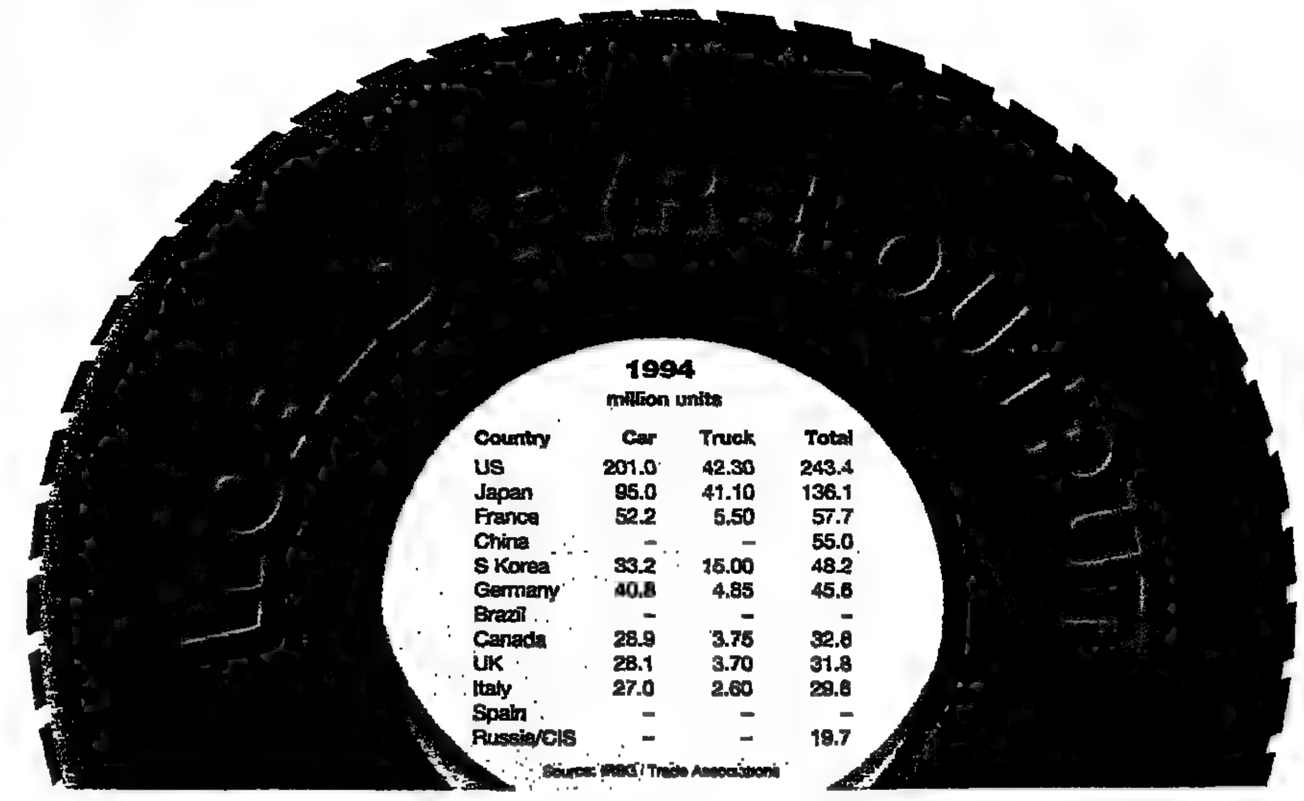
WORLD TYRE INDUSTRY

THE WORLD'S TOP TYRE MAKERS

Company	1994 sales($m)	% of group sales	1993 sales($m)	% of group sales	1992 sales($m)	% of group sales	1991 sales($m)	% of group sales
Michelin*	10,881**	90	9,935	88.8	11,000	87	10,020	84
Bridgestone*	10,272**	86**	9,472	85.6	9,345	87.6	8,688	85
Goodyear*	9,428	76.7	8,853	76	8,167	69.3	7,849	72
Continental*	3,902**	64	3,719	65.2	3,980	64.2	3,613	64
Sumitomo*	3,426**	72**	3,223	71	3,276	71.6	3,050	71
Pirelli*	2,717	50	2,745	90	2,875	86	2,756	85
Yokohama	2,651**	72	2,523	70	2,432	71	2,320	69
Toyo	1,410	57.7	1,298	56.3	1,283	57.9	1,194	58
Cooper	1,193	85	1,015	85	1,000	[illegible]	830	83
Hankook	997	85	788	90.1	759	94.9	681	95
Kumho	847	80	876	79.4	843	79.5	703	79
Ohtsu	784	96	665	90	689	90	621	91
South Pacific#	698**	90**	612	89	608	89	695	89
Shanghai	314	99	256	100	158	100	172	100
CIL	285	100	193	100	230	-	-	-
Cheng Shin	278	95	255	99	241	97	220	96
MRF	276	75	269	76	303	99.5	324	97
Apollo	239	100	218	100	170	100	161	100
Modi	231	100	221	100	213	100	301	100
SUB-TOTAL	50,829		47,137		47,552		44,196	
TOTAL***	57,773		53,180		53,115		50,400	

Notes: *Sales data have been adjusted to exclude revenue from equity-owned retail activities **Estimate ***Comprises more than 100 smaller companies and incomplete returns #South Pacific is a 50/50 joint venture between Goodyear and Pacific Dunlop. 50% of South Pacific's sales are included in Goodyear's sales
Source: European Rubber Journal, Global Tyre Report 1995-96



1994 million units			
Country	Car	Truck	Total
US	201.0	42.30	243.4
Japan	95.0	41.10	136.1
France	52.2	5.50	57.7
China	–	–	55.0
S Korea	33.2	15.00	48.2
Germany	40.8	4.85	45.6
Brazil	–	–	–
Canada	28.9	3.75	32.6
UK	28.1	3.70	31.8
Italy	27.0	2.60	29.6
Spain	–	–	–
Russia/CIS	–	–	19.7

Source: IRSG / Trade Associations

A break from the cycle of recession

Burgeoning markets in Asia and South America may offset uncertainty in Europe and the US, says **John Griffiths**

One of the $60bn-a-year world tyre industry's most difficult searches has been for an effective "run-flat" tyre, capable of surviving a long journey even when deflated. But the concept has already been developed to a fine art in terms of the industry's financial performance.

The early 1990s were marked by one of the industry's worst bouts of cyclical recession; puncturing profits and leaving over-capacity rife.

By means of fierce cost-cutting, plant closures and other rationalisation, all the big groups in the industry survived. By 1994, a few companies were beginning to reconnect the air pump.

Now, as the industry enters the second half of the decade, it is once more looking round and uniformly black, if not exactly fat. Profitability has returned to an extent that few of its senior executives would have predicted little more than two years ago, although not without severe damage to balance sheets. A testimony to the effectiveness of survival measures is that the black ink has reappeared despite the extra burden of some of the most savage increases in raw materials prices the tyre makers have ever experienced.

Groupe Michelin, the world's biggest tyre maker, is back into substantial profits after the most expensive slimming-down exercise in its history. Goodyear Tire and Rubber, one of the first to find the air pump, will shortly report record sales for the second successive year and a further substantial rise in profits.

The recovery story is similar, though in most cases not quite so dramatic, at Continental of Germany, Bridgestone and most of the other world "top ten" tyre companies which between them control over 80 per cent of the global market. Even Pirelli Tyre Holding, the Dutch-registered arm of the Italian tyres and cables group, is back into profits after Pirelli's costly and abortive efforts to take over its larger rival, Continental, in the early 1990s.

The industry has learned caution in discussing its immediate past and prospects. "Overall, 1995 was an average to fair year for the industry globally. But it's been a challenge in terms of raw materials prices. No one, in 1994, expected that to happen", says Mr Samir Gibara, Goodyear's new chief executive and prospective chairman.

"It's a question now of whether prices will increase again. Our view and hope is that they have pretty well reached a plateau, with only slight increases expected in 1996."

Mr Giuseppe Bencini, managing director of Pirelli's tyre operations, similarly fails to be euphoric about the return to profits. "Overall 1995 was a good year for balance between demand and supply, after two previous years of severe over-capacity in the industry."

Both say this year is starting well, despite uncertainty over growth in West European vehicle markets and, in North America, worries over labour costs and flexibility after two long and damaging strikes involving Bridgestone and Pirelli Armstrong.

The US labour unrest has provoked warnings from US-based companies that, should labour costs continue upwards at too great a rate, new manufacturing investment could well drift south to the US' Nafta partner, Mexico, instead.

The tensions appear sufficiently unworrying to Michelin, however, for the French group – which also owns the US Uniroyal Goodrich brands – to be planning some $900m of new investments in North America over the next five years.

Offsetting the European and North American uncertainties, a flurry of vehicle manufacturer investment in Brazil and Argentina, as South America's Mercosur trading bloc takes firmer shape, has raised growth expectations for the tyre industry, with several of the bigger tyre groups adding, or planning to add, capacity.

Pirelli's Mr Bencini suggests that vehicle projects so far announced for the region are only a beginning, with several more large ones just over the horizon.

Pirelli, which has long used its extensive South American operations as a base for exports elsewhere, projects 15 per cent growth in original equipment business in the region this year, with more rapid expansion subsequently.

Tyre makers' principal focus of attention, however, remains the burgeoning vehicle markets of the Asia-Pacific region, and the race is on to be in at the start of the motorisation of India's 800m and China's 1bn-plus inhabitants.

Month by month, the list of joint ventures and capacity investments grows longer.

In Europe, the cutback on capacity has left supply and demand in better balance, with even a few shortages developing in some parts of the original equipment business. Some industry observers have suggested that the shortages were engineered, as part of a poker game in which tyre makers were seeking to improve their thin margins with the vehicle makers.

If so, there was a danger of it backfiring, with General Motors' Opel subsidiary opting to fill one gap by placing an order with Hankook of South Korea which, like other Asian producers is pricing aggressively in pursuit of market entry.

Nevertheless prices have hardened enough to cover the sharp increases in raw materials costs of the past two years.

And European tyre makers argue that the Hankook deal is likely to turn out to be a "one-off" unless the South Korean industry further advances its tyre technology and establishes manufacturing capacity inside western Europe.

No-one in the industry, however, should be ruling that out. Similar arguments could have been raised against Bridgestone of Japan 15 years ago. Now, it is the world's second largest producer after Michelin, having grown on the back of the Japanese car industry to become a technology leader and acquire the US' most famous brand after Goodyear – Firestone.

Korean vehicle makers have hugely ambitious plans for their own world growth over the next decade, and Korea's tyre makers have every intention of riding with them.

While German tyre makers, burdened with a strong D-Mark and costly and inflexible labour forces, are looking with more urgent interest at Eastern Europe for manufacturing investment, a more cautious attitude is being adopted by other big groups in the industry.

Some believe that, while the region may be a low cost producer now, labour rates and other costs are likely to rise rapidly in the future. Nevertheless, selective investments are being made: Goodyear, for example, only last month announced the $55m acquisition of the Polish state treasury's 32.7 per cent stake in TC Debica, one of the region's leading tyre makers, together with the underwriting of a $60m capital increase to fund modernisation and expansion of Debica's plants.

With the big manufacturers' return to profitability, and the prospect of growing markets and margins in both the original equipment and replacement tyre markets over the next several years, the mergers and takeover talk which preoccupied the industry in the late 1980s and early 1990s have faded.

Have the upper echelons of the industry, then, at last stabilised, with no further rationalisation contemplated or left to come?

Goodyear's Mr Gibara, for one, says no-one should count on it. Michelin, Bridgestone and Goodyear remain bigger than their next nearest rivals by a factor of at least two. In terms of economies of scale and cost-sharing, much could still be gained by smaller manufacturers through alliances if not formal mergers or takeovers. "Frankly, I doubt if it's all over yet", says Mr Gibara.

■ **Americas:** by Bruce Davis

Moving into two continents

Dealers and manufacturers are at odds, but forecasts seem encouraging

Groupe Michelin grabbed headlines late last year when it announced an extensive capacity expansion plan at its South Carolina factory network – representing up to $900m in capital expenditures over 5 years. But nearly as significant in terms of the marketplace were several deals made throughout the year affecting distribution.

Four such deals stand out:

- Penske's purchase of Kmart's $360m automotive service business, and subsequent switch to a sole supply contract for the 860-store chain to Goodyear, depriving Michelin of a key customer;
- the creation of a $400m purchasing and marketing alliance, Tire Alliance, involving seven of North America's largest independent tyre dealerships;
- a management/dealer buy-out of America's largest independent franchising system (389 affiliated stores), Colorado's Big O Tires; and
- a realignment of Sears, Roebuck and Co's automotive group – into a tyre division comprising 1,042 stores, and an automotive parts division, with 1,480 locations.

These, and other deals, focused attention on a growing rift between independent dealers and tyre manufacturers, particularly Goodyear, which has aggressively pursued "non-traditional" distribution channels for the past few years.

The distribution system is undergoing fundamental change, according to Michelin Americas data, which show large national and regional dealerships – those with 50 or more depots – accounting for 45 per cent of the US market for replacement tyres.

Small independent dealers, numbering about 22,000 nationwide and accounting for 30 per cent, are attempting to counter the tyre makers' moves into mass merchandising, sometimes by forming their own buying coalitions, and sometimes by litigation. Mass merchandisers and so-called "warehouse clubs" take an estimated 17-20 per cent of the replacement market for car tyres. Tyre maker-controlled retail chains – Goodyear and Bridgestone/Firestone – account for about 8 per cent.

North America is the world's single largest market for tyres – and easily the most accessible for international brands.

Replacement market tyre shipments are expected to grow steadily, if not spectacularly, this year after falling about 3 per cent below industry projections for 1995.

Forecasts for 1995-96 in part on the strong 1994 market, when all time US record shipments of 278m units (car and truck tyres) were a solid 11 per cent ahead of 1993.

Reflecting the openness of the US market to international trade, approximately 17 per cent of replacement car tyre shipments and more than 20 per cent of commercial vehicle tyre shipments in 1994 were imports from outside North America, primarily from Japan, Brazil, South Korea, France, and India.

Similarly, the US replacement market for car tyres is split about 50-50 between such manufacturer's flag brands as Goodyear, Michelin and Bridgestone and private and associate brands, although a recent survey indicates the manufacturers' associate brands – Goodyear's Kelly-Springfield or Bridgestone/Firestone's Dayton, for example – have been picking up market share steadily.

1996 will be a key year for three of the "second tier" manufacturers in North America – Continental General Tire, Dunlop Tires, and Pirelli Armstrong Tire – all of which are striving to rebound from losses in 1994. Those incurred by Dunlop and Pirelli Armstrong resulted largely from extended strikes.

In Latin America, if vehicle industry investments are a measure of future tyre demand, then a rash of tyre plant expansion announcements throughout that area should be expected soon.

The investment plans of European and American car and truck producers in Brazil and Argentina total more than $12bn and represent nearly 500,000 units of new annual vehicle capacity.

Latin America is dominated by three manufacturers – Goodyear Tire and Rubber, Bridgestone/Firestone, and the Pirelli Group, which control up to three quarters of the market. The rest is split among a dozen relatively small, local producers, and Groupe Michelin, which produces commercial vehicle tyres in Brazil.

For Pirelli, Latin America represents nearly one quarter of global turnover, 27 per cent of operating earnings, one third of in-place capacity, and 31 per cent of employees.

South Korean manufacturers Hankook Tire Manufacturing and Kumho have also carved out niches in Latin America, both claiming 10-12 per cent of their global turnover from sales in the region.

Mexico's Corporacion Industrial Llantera is the holding company for Hulera Euzkadi which has grown into a global top 20 tyre maker through its acquisition of General Tire de Mexico, and more recently has secured long-term affiliations with Continental.

Euzkadi is still largely focused on the Mexican market, but it is placed to expand northward into the US and southward into Central and South America, especially with Continental's marketing resources to tap into.

Forecasts of tyre and rubber growth show annual increases of 3 to 4 per cent, although the raw numbers can be misleading because they do not reflect the parallel change to radial capacity from cross-ply.

The author is European editor of the European Rubber Journal

Tyre sales in Latin America

$ million	
Goodyear (includes non-tyre sales)	1,512.5
Bridgestone/Firestone	850.0
Pirelli	725.3
Euzkadi	285.0
Michelin / Uniroyal	150.0
FATE	137.0
Tornel	85.0
Llantas General	50.0
Ico/Prollantes Necsa	33.0
Lima Caucho	30.5
[illegible]	25.5
Total	3,950

Source: European Rubber Journal

The five largest tyre manufacturers collectively accounted for an estimated 85% of the US and Canada's $19bn tyre sales in 1994

■ **Europe:** by Bruce Davis

The fight to strike a balance

Top companies are hedging their bets by expanding their operations eastwards

The European tyre supply-and-demand relationship, out of equilibrium for much of 1995, has attained a sense of balance as 1996 begins, but expanding capacities, growing imports and general economic sluggishness in key markets could easily tip the scales as the year progresses.

The big manufacturers themselves vary in their forecasts for Europe, and have taken steps towards matching capacities to demand. The most notable change has been a widespread move to 7-day, round-the-clock operations at manufacturing facilities in Benelux, France and Germany.

Michelin and Goodyear, in particular, are banking on productivity and flexibility improvements afforded by 7-day working weeks to offset high manufacturing costs at their European factories. Pirelli and Sumitomo Rubber Europe (Dunlop) have also moved to continuous operation, but to a lesser degree.

At the same time as lengthening the working week, tyre makers are rationalising factory capacities to make each plant more specialised – devoted strictly to original equipment (OE) passenger car tyres, for example – in an effort to enhance productivity. Michelin, Goodyear and Continental are hedging their bets by extending their manufacturing networks eastward and buying shares of tyre makers in lower production cost countries such as Poland, the Czech republic and Slovenia.

OE and replacement market customers experienced spot shortages of tyres in 1995, especially in the commercial vehicle and farming and forestry sectors, but also in the passenger car market. The shortage of car tyres was unexpected in that car sales across Europe were only about 1 per cent ahead of those in 1994. The need to provide the right product to meet demand, however, was an important factor. European car makers are turning increasingly to lower rolling resistance "green" tyres, capacities for which are still limited.

Shortfalls in OE shipments were met primarily either by temporary delivery contracts with non-traditional suppliers – Holland's Vredestein, for example – or by shipping vehicles to car dealers without spare tyres, forcing them to solve the problem locally.

European tyre makers should report better-than-projected results for 1995 thanks to healthy winter tyre sales during November-December in central Europe. Winter tyres account for 10-12 per cent of the replacement market Europe-wide for S/T-rated tyres – and up to a quarter of sales in certain areas throughout the region, especially in Alpine communities.

In the replacement market, dealers and consumers across Europe are faced with a continually increasing array of brands and price categories. Market observers in Germany now count more than 110 separate new tyre brands, with more than half coming from sources outside Europe.

Maintaining and expanding distribution channels continues to occupy considerable management time and energy. Michelin and Continental have the most extensive equity-held retail networks, with 1,200 and 950 depots respectively, across the continent. Michelin has nearly completed converting all the outlets of its network to commonly signed "Euromaster" depots, whereas Continental continues to operate its various retail chains under their own, regionally recognised names, such as "NTS" in the UK or "Vergoelst" in Germany.

Kwik-Fit Holdings plc, considered Europe's largest "independent" tyre retailer for most of the past decade, expanded its reach late last year with the purchase of the 43-outlet UK chain, Tyre Sales Birmingham, giving the Edinburgh-based company 635 depots in the UK and 186 more throughout Benelux.

In the commercial vehicle segment, most manufacturers have been scrambling since early 1995 to keep up with demand, which shot up stronger and faster than expected.

Freight activity during 1993-94 failed to live up to the levels expected following the collapse of communism in eastern Europe and the opening of east-west borders for the first time in 50 years. As a result, transport companies reduced the number of vehicles on the road and chose to "cannibalise" tyres from idle equipment, creating a dip in replacement demand.

JP Morgan Securities has estimated truck tyre shipments will have increased as much as 7 per cent last year – following a 12 per cent jump 1994 – and might climb again this year to the 1989 European peak of 12.2m units. This follows a three-year slump that saw truck tyre demand drop more than 20 per cent from 1990-1993 to below 10m units.

Retreads account for another 6-7m units of replacement market demand or about 40 to 45 per cent of the European replacement market. Acceptance of truck retreads has been rising steadily in the past few years.

European production*

	Output	Growth rate
France	57.7	+3.2%
Germany	45.6	+0.0%
UK	31.8	+8.7%
Italy	29.6	-5.1%
Spain	23.5†	

Forecast to year 2000

Car tyre sales

Western Europe	1995	2000	Annual growth
Original equipment	61.9	67.0	+1.6%
Replacement	122.3	136.0	+2.2%
Eastern Europe			
Original equipment	4.7	6.9	+9.4%
Replacement	12.8	15.3	+3.9%
TOTAL	201.7	225.2	+2.3%

Truck tyre sales

Western Europe	1995	2000	Annual growth
Original equipment	7.5	8.2	+1.9%
Replacement	18.7	19.0	+0.3%
Eastern Europe			
Original equipment	2.1	2.9	+7.6%
Replacement	4.9	5.6	+2.9%
TOTAL	33.2	35.7	+1.5%

Notes: *1994 figures in millions of units; †1993 data. Source: Economist Intelligence Unit

Source: European Rubber Journal

1994 figures

■ **Asia:** by Michiyo Nakamoto

Faced by new trends

With growth low at home, Japanese tyre makers are scrambling to expand next door

The Asian region in the past few years has been marked by contrasting trends. In Japan, one of the world's largest tyre-producing countries the market has become mature, while in other countries demand for tyres has been growing strongly. In contrast to expectations of stagnant growth in Japan, the tyre markets in Asian countries are forecast to continue to show marked expansion in the years ahead.

"The global tyre market will grow only 3 per cent, of which Asia, including China, will grow 8 to 10 per cent. That means growth in Japan will be about 1 to 2 per cent annually," says Mr Takashi Uchibayashi, executive director of Sumitomo Rubber.

Intially, prospects in Japan do not seem as gloomy as industry executives suggest. Last year, the Japanese industry produced a record 1.04m tonnes, breaking above the 1m tonne mark for the first time in 3 years, according to forecasts by the Japan Rubber Manufacturers Association. Tyre sales in 1995 are also expected to rise 5.5 per cent to 613,000 tonnes, according to the Japan Automobile Tyre Manufacturers Association.

However, these solid figures conceal a structural change in the Japanese market which is forcing Japanese tyre makers to set their sights on other markets for future growth.

While overall sales appear firm, the increase is supported largely by replacement demand rather than OE sales to vehicle makers. As Japanese vehicle makers have shifted a growing proportion of their manufacturing overseas, demand for OE tyres which has comprised the majority of domestic sales has fallen significantly.

In 1994, the last year for which statistics are available, OE tyre sales dropped 9 per cent to 47.3m units, according to JATMA.

"The main issue we face is the shift of Japanese car manufacturing overseas," says Mr Uchibayashi at Sumitomo. "As a result our OE orders have fallen drastically," he says.

Imported tyres, which surged on the back of a rising yen and growing cost-consciousness among Japanese consumers, have grown to take nearly 15 per cent of the passenger car market, according to JATMA.

Japanese companies are moving aggressively to strengthen their networks of directly operated retailers, to shift to more value-added products and to raise their cost competitiveness in order to compete more effectively for the replacement market.

But in the long term, the greater competition in the replacement market as a result of falling OE demand and the growth of imports are expected to lower margins for domestic tyre makers, Mr Fujiwara says.

As a result, Japanese tyre makers are scrambling to expand in neighbouring Asia. In recent years, Asian markets outside Japan have been a significant source of demand for exports because economic development has spurred construction activity.

Overall exports to East and South Asia grew nearly 15 per cent in 1994 to 103,363 tonnes. While figures are not available yet for 1995, buoyant exports to Asia are believed to be a factor behind an estimated 13 per cent rise in total exports last year, according to JATMA.

However, in order to establish their presence in the local markets, and as a means of countering the impact of the high yen, Japanese companies are aggressively setting up manufacturing operations in the region.

Bridgestone, which is Japan's largest tyre maker, was the earliest to recognise Asia's potential. The company has manufacturing facilities in Taiwan, Indonesia and Thailand.

But it is Toyo Tire and Rubber, a smaller company, which has become first among Japanese tyre makers to venture into China. Toyo has joined hands with a local company to manufacture tyres for passenger cars in Shanghai from next year. The company plans to export mainly radial tyres which it will manufacture in China to markets in the US, Europe and Japan.

Toyo Tire's move into China has put the spotlight on the plans of the industry leader, Bridgestone, for that market.

Although Bridgestone regards China as one of the most promising markets in Asia, along with Thailand, Indonesia and India, the company remains cautious about its prospects there. "It is very difficult to figure out China," says a Bridgestone official.

While their slow move into the Chinese market contrasts with the aggressive plans of their western competitors, the Japanese manufacturers are committed to becoming a main force in the Asian market which is their best hope for future growth.

Company profiles: FT reporters look at the fortunes and strategies of the six leading producers in a changing market

Large, energetic and secretive

A change of style is beginning to emerge as expansion is slowed and a search for new markets pursued

Like Bibenbum, the jovial man made of tyres who serves as its corporate symbol, Michelin just keeps on rolling.

Barely a month goes by without some important piece of news emerging from the French-based group.

Between 1960 and 1990, it opened or bought new factories around the world at the rate of one every nine months.

In the last two months of 1995 alone, for example, it announced, in November, that it would be investing up to $900m over the next five years in boosting its US manufacturing capacity. It followed this up less than two weeks later by stating its intention to open a research centre in the south of France.

Then, during December, it bought a majority stake in Stomil Olsztyn, the Polish tyre maker, and soon afterwards unveiled an investment of nearly $30m in Michelin Shen Yang Tire Company, a joint venture in the Chinese town of Shen Yang, to produce radial tyres for cars and light trucks.

Yet Michelin remains one of the most enigmatic tyre producers in the world, at the same time the largest – with some 18 per cent of the market – and one of the most secretive. It stands apart from its competitors in many important ways.

Evolving from the partnership of Barbier, Daubrée et Cie in 1863 in Clermont-Ferrand in central France, Michelin went on to open its first factory abroad in Italy in 1906, and distinguished itself with many innovations over the years, notably the invention of the radial tyre in 1946.

Eager to raise its marketing profile, the group is happy to circulate glossy brochures on its products.

But when it comes to communicating on financial information, the situation is a little more closed.

Until recently, the family has been reluctant to offer interviews. It continues to control the capital of the group, which is incorporated under the unusual legal status of a *société en commandites par actions*, exposing the managing partners – François Michelin, his son Edouard and Mr René Zingraff – to unlimited liability while conserving their power.

But some elements of the group's style are beginning to change.

Its hectic expansion has now slowed, after culminating in the acquisition of Uniroyal Goodrich in 1989, which provided it with a strong market share but also high debts and restructuring challenges at a time of economic downturn.

After dropping into losses since 1990 – when it went into the red by FFr5.3bn at time of capital investment of FFr12bn – executives predict that they will return into the black for the full 12 months of 1995. Net profits of FFr1.43bn were reported for the first half of the year.

They still face considerable challenges. Net debt stands at FFr21.4bn, and cost cutting remains a central philosophy. The worldwide workforce, after peaking at 140,000 in 1990, has been dropping steadily to 118,000 in 1994 – and that is a trend which is likely to continue.

Michelin is responding in a number of ways. It is expanding in growing regions such as eastern Asia, rationalising in more mature markets, and investing heavily in new technologies, such as its completely automated and highly-secretive C3M manufacturing unit, capable of switching between the production of different types of tyres.

During mid-January this year, the group made public some of the conclusions of an important organisational study launched in September last year.

In what it claimed was an effort to be "more responsive and closer" to markets and customers, it is restructuring itself into four areas, and creating a nine-person executive council to assist the managing partners. It seems that the buzz of new activity will continue long into the future.

Andrew Jack

A come-back after Indy wins

One topic that triggers an enthusiastic response at Bridgestone, Japan's pre-eminent tyre manufacturer, is the return of the company's US subsidiary to the celebrated IndyCar World Series car races.

After an absence of 21 years, Bridgestone/Firestone resumed participation in the Indycar World Series last March and has already seen two cars using its tyres win first place this season.

The company's return to the Indy is regarded at Bridgestone as a sure sign that, after the rocky years of the early 1990s, things are finally looking up.

The Japanese tyre maker has been through a difficult few years as profits suffered amid recession at home and its US subsidiary was mired in a prolonged strike that damaged its public image.

In particular, the problems at Firestone, the US tyre maker it acquired in 1988, weighed down heavily on the Japanese company which was forced to pump $1bn into upgrading facilities and raising competitiveness.

But as it emerges from those dark days, Bridgestone is showing that there is reason for its optimism and for believing that the company is set to build on its position as the second largest tyre maker in the world.

"Bridgestone will, we believe, become a more powerful force within the tyre industry," says Mr [illegible] Clarke, industry analyst at Kleinwort Benson in Tokyo.

With the Japanese tyre market, which has traditionally provided most of its profits, suffering from lower vehicle production, one of the company's key strengths is its extensive global presence.

When it purchased Firestone, Bridgestone quickly modernised the 18 overseas plants it acquired, while one was closed. In the past few years, it has made significant inroads in rationalising its overseas operations. In Europe, for example, it consolidated former Bridgestone and Firestone sales companies into a total of 13.

The benefits of those moves are showing through clearly in Bridgestone's performance in the US and Europe.

In the US, Bridgestone/Firestone has improved its reputation for quality and won back business from GM, the largest car maker which halted orders after the Japanese company acquired Firestone.

The US subsidiary reported an 11 per cent increase in sales to $5.7bn and a nearly fivefold gain in net profits to $29m in 1994, the last year for which results are currently available. In the year to December, 1995, it is expected to see sales rise another 8 per cent to Y6.2bn with net profits more than quadrupling to $130m.

In Europe, helped by the economic recovery there, Bridgestone/Firestone expanded sales strongly, particularly in the replacement market. A 9 per cent increase in sales to $1.4bn in 1994 is expected to be followed this year by a further rise in sales of 24 per cent to $1.8bn. Net profits which doubled to $31m are forecast to rise further to $50m.

"Foreign plants are running at very high capacity," the company says.

In Japan, where the continued decline of vehicle production has slashed original equipment sales in the industry, Bridgestone has been aggressively marketing replacement tyres and launching innovative products.

With nearly 46 per cent of the domestic market, strong brand recognition, high productivity and outstanding R&D capabilities, Bridgestone is unlikely to see its market leadership challenged easily.

Meanwhile, it is moving aggressively into new, promising markets in Asia, where spreading vehicle use and the expanding presence of Japanese vehicle makers, are expected to support further growth ahead.

In addition to its factory in Taiwan, Bridgestone is expanding its facility in Indonesia and building a second factory in Thailand. In India, it has just agreed with the Associated Cement Companies to set up a tyre manufacturing and sales joint venture and is looking into the possibility of manufacturing in China.

While its solid presence in the US and Europe give it a balanced global operation, Asia is clearly where the company has its future hopes set.

"Rather than increase sales in the US and Europe, where competition is fierce, we are aiming to develop new, promising markets," a company representative points out.

By doing so, Bridgestone believes it can achieve its goal of raising its share of the world tyre market from just under 18 per cent to 20 per cent by the year 2000.

Michiyo Nakamoto

Making up on the top three

Continental, the German tyre maker from Hanover, is the world's fourth largest tyre manufacturer by market share behind Michelin, Bridgestone and Goodyear.

It is a position that carries some disadvantages in a market where size, resources, and especially the ability to sustain high research and development costs, play an increasingly important role.

Furthermore, Continental's fourth place somewhat distorts the reality of a market that is dominated by the top three companies, behind which Continental lags to a significant extent.

The German group, including its US subsidiary General Tire, commanded only a 7 per cent share of the world tyre market in 1994, compared with 20 per cent for Michelin, the market leader, 18 per cent for Bridgestone and 16 per cent for Goodyear.

But despite this apparent disadvantage Continental has been able to deliver the long-promised turnaround after some years of a cost cutting and productivity exercise.

Last autumn, the company forecast a strong rise in profits, following on from a 53 per cent increase in first-half 1995 profits.

The productivity drive followed the attempt several years ago by Pirelli, the Italian tyre company, to take over Continental by means of a hostile takeover in an unusually bitter struggle, out which Continental's management emerged victorious.

It was one of very few hostile takeover bids to have taken place in Germany.

Continental's position is, of course, much stronger in Germany, its home market. Here it has been the market leader in the tyre replacement sector.

Through its 1987 acquisition of General Tire, Continental moved towards its goal of becoming a regionally more diverse group. In 1994, General Tire accounted for about 22 per cent of turnover.

Continental is the most diversified among the top companies, due largely to ContiTech, the rubber products company, which in 1994 accounted for 25 per cent of turnover.

ContiTech, which derives a substantial part of its business from the car industry, and to a significant extent in Germany, historically proved to have been a steadier source of income than the tyre business, and has therefore had a stabilising effect on profits.

Continental's tyre operations also differ from its rivals in the brand make-up.

According to an estimate by Lehman Brothers, the premium Continental brand made up only about 42 per cent of sales in 1993, with the rest of sales going into second or lower-tier tyres.

These include Uniroyal at 24 per cent and Semperit, at 21 per cent.

The winter tyre business, a market segment in which Continental plays a leading role has traditionally been an important source of income.

At the end of last year, Continental completed a DM180m investment in a new factory in Lousado, near Porto in Portugal, which at 20,000 tyres a day has a higher output than any of its German factories.

Mr Hubertus von Grünberg, chairman of Continental, called the Portuguese factory the company's "most modern plant in Europe".

Only 10 per cent of its output remains in Portugal. Much of the original equipment sales goes to Spanish-based car makers including Seat, Volkswagen and Opel, as well as East Asian car makers such as Daewoo in South Korea.

The new plant, along with the production plant in Otrokovice in the Czech Republic, forms part of Continental's strategy to shift production to low-cost countries. This is a policy which has led to some concern among Continental's German workforce.

In Portugal, Continental's labour costs are about a third lower than the prevailing levels in Germany.

However, Mr von Grünberg maintains that he does not intend to push this strategy to its extremes. He has, in addition, pledged to retain the company's traditional German plants, including those in Hanover and Aachen.

But there is no doubt that the lower cost of production outside Germany has had an impact on the regional spread of production at Continental as well as numerous other German companies.

Wolfgang Münchau

Record sales and firm profits

It was less than a decade ago that Goodyear Tire and Rubber, then the world's largest tyre maker, found itself suddenly demoted to third place by the aggressively expansionist Michelin of France and Bridgestone of Japan.

Now on its second chief executive since that era, Goodyear is not content with its humbler position in the world hierarchy. However, the principal goals of Egyptian-born Mr Samir "Sam" Gibara, 56, who became chief executive on January 1 and is virtually certain to add the chairmanship when the current chairman Mr Stanley Gault retires in June, are not just to make Goodyear the biggest again.

"My objective is not to be number one in the world size-wise but to be best in terms of returns to shareholders and motivated employees. The rest will follow on," says Mr Gibara. Measured by sales and profits, Goodyear appears to be travelling rapidly along that route.

It is shortly expected to announce record sales and further substantial profits for the second year running.

Mr Gibara, a former adviser to Brussels' International Trade Centre, has been Mr Gault's deputy for several years. He has thus observed at first hand the financial renaissance engineered by Mr Gault after Sir James Goldsmith's abortive takeover attempt left Goodyear floundering in debt in the late 1980s.

The latest financial results, says Mr Gibara, will confirm that Goodyear is managing cyclical activity better than in the past, reflected in lowering the breakeven point to accommodate last year's swingeing raw materials price increases without having too adverse an impact on the company's results.

The company's nine-month sales, at $9.9bn, were 9 per cent higher than in the previous year's period. Net income grew by 7.9 per cent to $464.6m, or $3.06 per share, compared with $430.5m, or $2.85 per share, in the same 1994 period.

The priority now, he says, "is to grow Goodyear in 1996 and beyond. In the past four to five years, half the world – Eastern Europe, China, the old Soviet Union – has become available to us, all huge, emerging markets. In our mature markets, the name of the game is productivity improvements and cost reductions. But in developing areas we will make big investments."

Capital spending on Goodyear's world-wide businesses jumped sharply during the nine-month period to $373.5m, compared with $306.9m a year earlier. As with its chief rivals, Goodyear's eyes are turned, in particular, towards China and other fast-growing Asia-Pacific centres where vehicle production is taking root.

Goodyear's performance was aided last year by a blitz of new products, especially in the performance tyre sector. It also took substantive steps to increase its distribution networks, adding a total of 1,300 outlets through agreements with independent groups such as Penske.

It has escaped the traumas which afflicted rivals Bridgestone and Pirelli in the US last year in the form of months-long strikes over pay and working terms.

It negotiated, as usual, with the American Rubber Workers. Bridgestone and Pirelli sought to make independent agreements, Bridgestone using, temporarily, non-union labour but with scant success.

Goodyear, quietly, was not too displeased with the outcome of its rivals' efforts: "We couldn't let the competition gain a low-cost advantage," says Mr Gibara.

Despite the unions' success this time round, Goodyear executives suggest that there is a warning for the US tyre industry's work force to be found in what has happened in Germany, where Continental has made clear that new investments will be made mainly outside the country because of high German labour costs and inflexibility.

With the North American Free Trade Agreement now firmly in place, a similar process could happen in the US, with new production investment drifting south of the border to Mexico, it is hinted.

"The analogy with Germany is a good one", says Mr Gibara. "The US industry is not immune from the risk of becoming a high-cost producer. OK, the German situation is more difficult than in the US. But if we're not careful US workers may indeed price themselves out of the market."

One large cloud, however, is now lifting from the sprawling Akron, Ohio, headquarters of Goodyear.

Several years ago, Goodyear was struggling with heavy losses on one of its biggest diversification investments made in the 1980s – a $1bn, oil-carrying pipeline across the southern US which initially attracted little business and which Goodyear was unable to sell.

"But the pipeline in 1995 was the pleasant surprise", says Mr Gibara of its $38.9m operating income in last year's first nine months. "We did very well out of it in terms of profit and, even more, cash flow – it's not a burden any more."

But it makes no strategic fit with the core business of tyre making around which Goodyear is rationalising. So it is still effectively on the market – but no longer as a distress sale.

It is the last of Goodyear's big non-tyre-related businesses still to be sold. There are still some small disposals to be made but "we're 90 per cent of the way to our shape for the future", says Mr Gibara.

John Griffiths

The struggle to define a strategy

Sumitomo Rubber stands among the top tyre making companies in Japan and the world, but it is, at the same time, struggling to define a new role for itself.

Sumitomo, which sells Dunlop tyres, faces the challenging task of shaping a strategy for growth in an industry increasingly dominated by global giants.

"Being a middle-sized tyre company, Sumitomo Rubber has to have a clear strategy in order to survive," says Mr Takashi Uchibayashi, executive director in charge of corporate planning and overseas business.

In the mature tyre market, it is difficult to expect significant changes in the pecking order, Sumitomo believes.

Rather than pursue market share, the company is aiming to raise profitability in its tyre operations and seek growth in new areas of business.

So far, Sumitomo has demonstrated that it is well positioned to achieve both goals.

Although it suffered the loss of a plant and R&D centre in Kobe when a devastating earthquake hit the region a year ago, Sumitomo managed to recover swiftly from the damage and is expected to increase sales and profits this year.

The company is likely to expand domestic tyre sales by 2.5 per cent on the strength of replacement demand, according to Mr Fuyuki Fujiwara, industry analyst at BZW in Tokyo.

Mr Fujiwara rates Sumitomo "one of the most competitive domestic tyre companies, in terms of productivity, retail reach and overseas production capacity."

Nevertheless, in order to raise profitability Sumitomo is focusing its efforts on improving productivity further, both at its overseas facilities and at those in Japan.

At home, despite being the second most productive tyre maker in Japan, according to Mr Fujiwara, Sumitomo has stepped up efforts to raise productivity further. It has been able to achieve substantial cost cuts at the factory level, mainly through improvements in facilities, Mr Uchibayashi points out.

Sumitomo is also in the process of shifting to higher value-added products in Japan – a strategy which contributed significantly to higher sales last year.

But productivity is a particularly pressing issue in the US, where Sumitomo has seen business grow as a result of the greater shift of Japanese vehicle production there and strong market demand.

Although its US facilities are running more or less at full capacity, "we are not satisfied with productivity levels in the US," Mr Uchibayashi says.

While the yen's sharp appreciation made US-manufactured products more competitive at Y85 to the dollar, the higher level of loss and waste at its US factories, taken with the longer time that is needed to fix problems arising in production, mean that at Y100 to the dollar, US costs are higher than costs in Japan.

Productivity at its US plants is about 15 per cent lower than in Japan, Mr Uchibayashi says.

Although low US market share is a blemish on Sumitomo's solid global operations, concerns about productivity and costs are holding back a decision on further capacity expansion there.

A review of US productivity and costs is under way, and a decision on whether or not to expand there is likely to be made within the year, Mr Uchibayashi says.

In Europe, the company's facilities are approaching Japanese levels of productivity and some plants are already on a par with plants in Japan.

Meanwhile, like its Japanese competitors, Sumitomo is seeking growth in Asia where it is building its first tyre plant in Indonesia. The company aims eventually to take 10 per cent of the Asian market, Mr Uchibayashi says.

Yet even as it works to improve the profitability of its tyre business and expand in emerging Asian markets, Sumitomo is diverting more of its resources to developing non-tyre businesses

"The tyre industry is following the path of the steel industry which has seen its markets mature and production fall," Mr Uchibayashi says.

By eventually raising its non-tyre businesses in areas such as sports equipment and advanced rubber products to 50 per cent from 35 per cent, Sumitomo is aiming to take a different course.

Michiyo Nakamoto

Bleak years are left behind

In late March, Pirelli, the Italian tyres and cables manufacturer, will announce its best financial results for five years.

It has already come a long way from the bleak early 1990s, when it was plunged into heavy losses by slumping vehicles markets and its abortive attempted takeover of its larger rival, Germany's Continental group.

Over 1992 and 1993 Pirelli's tyre operations, which account for about one-half of total turnover, made a total net loss of L382bn($223m). After achieving little more than break even in 1994, the tyre operations made a net profit of L29bn($17m) in last year's first half, and nearly $180m at the operating level. Net debt has plummeted and at 28 per cent gearing is well below early-1990s levels.

But, as Mr Giuseppe Bencini, managing director of Pirelli's global tyres operation, says, "the figures don't tell the whole story."

On the positive side are growing sales and profits in Europe and major markets outside North America. The negative is North America itself, where Pirelli's Armstrong Tire operations still bear the wounds of a nine-month strike and where efforts to bring down labour costs and increase labour flexibility have, like similarly strike-hit Bridgestone, been largely frustrated.

"We are getting very, very good results in the rest of the world," says Mr Bencini. "We are making some progress in North America – but it is still an unpleasant situation."

Pirelli, like some of its leading rivals, has a two-prong strategy to maximise its financial recovery from the deep world tyre market recession which afflicted all tyre makers in the early 1990s: a further lowering of costs and an intensive drive to bring new products on stream, mainly in the premium tyre categories.

The strategy is working, Mr Bencini insists, everywhere except North America. "We have been able to introduce a very high number of products in North America which have been well accepted. But we have not been able to reduce costs there; we have found that to deal with the US unions is a very tough job."

The strike is over, but for a long time crippled production at the company's two US plants and left key customers seeking supplies elsewhere.

One consequence has been a replacement of the top US management, now led by Mr Giovanni Ferrario as president and chief executive of New-haven, Connecticut-headquartered Pirelli Armstrong Tire. His task is to reverse the US subsidiary's $21.4m loss in 1994 and the further high losses the company is expected to report for last year. It is a galling scenario for Pirelli, now much concerned with consolidating a sound financial structure after the Continental saga.

However, it has not deterred Pirelli from investing heavily in more efficient and flexible manufacturing processes, needed for Pirelli to achieve its chief market goal of higher sales in the premium tyres sector. It is here that profits margins are at their widest – but also where manufacturing complexity is at its greatest because of the need to produce more complex tyres, in greater size and variety than the commodity tyre sector, and in necessarily lower volumes.

But the push is geographical as well as technological. Not least, Pirelli is working hard to increase its presence in the booming vehicle markets of the Asia-Pacific region and China. "Up to now this has been done mainly through exports, from Europe, from Turkey and from South America. But for the future we shall have joint ventures and local plants," says Mr Bencini.

Pirelli already has a strong customer base in Japan, currently supplied mainly from plants in Europe and South America. "But we do need to have one more joint venture in the Asia-Pacific region, although no decisions on location have been made," says Mr Bencini. A third, envisaged for India, is further down the priority list.

Pirelli has substantially restructured its manufacturing operations in Europe, shutting a number of plants and with the final stages including the ending of all truck tyre production in the UK and its transfer to Turkey.

However it is a reflection of the improved efficiency attained that total capacity has been maintained despite the closures, says Mr Bencini.

This was even allowing for a 20 per cent increase in the number of products available, in turn made possible by a 75 per cent increase in production flexibility between 1993 and the end of last year as new process machinery spread through the group's facilities.

The premium strategy has made Pirelli lead supplier to BMW, Jaguar, Porsche, Ferrari, Rover, Alfa-Romeo and Saab. In the important replacement tyre sector, it also claims market leadership in the performance tyre sector which has grown.

Its importance to Pirelli is obvious in terms of the sector's growth – by 6 per cent in volume terms in each of the past two years. Within this, however, Pirelli's own sales in the sector have jumped by 12 per cent and seven per cent over the same period.

John Griffiths

■ **Technology:** by John Griffiths

Technology moves ever-faster

Silica and new types of carbon black help to create improved tread compounds

Tyres are undergoing one of their most intensive periods of technological development in the 100-year plus history of the industry.

About the only certain prediction that can be made about tyres of the next century is that they will be round. There are no longer strong grounds for supposing, even, that they will have to remain black.

Of potentially greater importance in terms of tyre makers' financial well-being - and in some case, survival - is that the technology of tyre production is also changing at an ever-faster rate.

Most industry executives still talk of manufacturing evolution rather than revolution, with the possible exception of the mysterious so-called CM3 system developed by the ever-secretive Groupe Michelin - and about which few details have surfaced even though production is seemingly imminent.

However, the long lines of assemblers hand-building tyres on individual drums are almost gone, at least among the world's bigger producers. Some car and commercial vehicle tyre production is completely automated, but mostly for tyres of relative simplicity and which enjoy long production runs. The competitive challenge, as Mr Barrie Allbert, technical director of the Pirelli tyres group's Carlisle research and development centre points out, is to apply such automation to allow one assembly station to build more complex tyres, of several sizes, in batches of just a few thousand or even hundred.

Such versatility is not an option. As vehicle suspension systems become more sophisticated, so tyres need to be developed with each vehicle from first concept. And the world car market itself is fragmenting, resulting in many more vehicle types being produced in smaller numbers, eroding car and tyre makers' scope for economies of scale.

The productivity improvements arising both from increased automation and more flexible and efficient team working methods are considerable. In Pirelli's case at Carlisle, output has risen by 45 per cent over the past three years, the number of different products by a similar proportion and, using Japan's total production maintenance (TPM) techniques, process breakdowns have been cut from 100 to 10 a month.

The new technology also has an impact on quality standards of tyres, manifest in greater uniformity through new construction techniques such as spiral belt windings, avoiding any splicing or overlaps in the tyre's construction. The higher quality is needed for the increasingly severe test standards applied to tyres, according to Mr Andy Hallam, who oversees Pirelli's test facilities and motor sport operations at Carlisle.

But the industry's own tests far exceed legislative requirements. Higher speed rated tyres now typically are tested for one hour at 240 kilometres an hour, then speed is increased in 10 kph stages to destruction. Carlisle's high-speed rig regularly tests at 320kph, or 200mph.

Inevitably, it is on the tyre itself that most attention focuses. Materials are changing, with silica and new types of carbon black appearing to create improved tread compounds. Some potential change could be classed as revolutionary, not least plans for "smart" tyres with built-in computer chips.

As Goodyear, which is pursuing the concept vigorously, acknowledges, such tyres are still in their prototype infancy. But some are already undergoing trials with truck fleet operators. Such "smart" tyres would be able to track a tyre's complete life cycle, including mileage, heat build-up and severe usage such as pothole impacts, providing highly valuable information about how to improve future tyre construction.

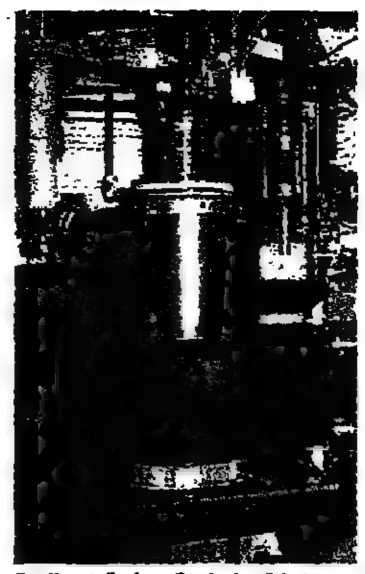
While acknowledged to be a long way off, it is also conceivable that such chips could be modified to send data and warnings to a vehicle's driver about deflation, remaining tread depth and heat build-ups or other problems which could lead to a blow-out.

In the meantime, the industry's long search for a truly practical "run-flat" tyre - capable of completing a journey at relatively normal speeds even after being punctured - seems to be approaching reality. The run-flat tyre, pioneered by Dunlop with its "Denovo" concept in the 1970s, has until now been defeated in the marketplace because of the need for special wheels.

Goodyear's Eagle GS-C EMT is claimed to be the first to use a conventional wheel. Now available as an option on General Motors' Corvette sports car, it has the same, 150mph-plus capabilities of a conventional Corvette tyre but can travel up to 200 miles when deflated.

Such a capability eliminates the need for a spare wheel, of potentially great value for the design of new cars where space-saving and weight-saving are becoming increasingly important for energy-saving and environmental reasons.

The concept is particularly suited to low-profile, high performance tyres with a broad tread and narrow sidewalls. The problem is how to expand it into "taller" tyres - with bigger sidewalls subject to greater flexing - for more mainstream vehicles. So far, Goodyear has developed a prototype, the Eagle GA EMT, but it is not yet commercially available. However, "it could change everything", according to Mr Bill Egan, chief engineer of product design. "The dream of eliminating the inconvenience of disabling 'flats' on the family automobile is moving a step closer to reality."



Continental's AquaContact safety tyre undergoes rigorous testing for construction uniformity and true running

Energy saving through reduced rolling resistance continues to be a prime preoccupation of the tyre industry, particularly in North America where federal Cafe (Corporate Average Fuel Economy) standards are requiring vehicle makers to produce ever more economical cars if they are to avoid "gas guzzler" financial penalties.

A 5-7 per cent reduction in rolling resistance improves a vehicle's fuel economy by about 1 per cent - of some significance, because rolling resistance has been cut by more than 20 per cent over the past few years.

This aspect of tyre performance has been given added significance, in North America at least, by the drive to introduce electric vehicles in California as a means of reducing pollution in smog-shrouded Los Angeles. In the past few weeks, some of the urgency has been taken out of the issue by the state's decision not to proceed with a mandate requiring carmakers to start selling 'EVs' in large numbers from 1998.

■ **Recycling:** by Halg Simonian

The main problem is scrap

Even tyres used for landfill can be a hazard, because they can form air pockets and make a site unstable

For all their ubiquity, tyres can be surprisingly emotive. Just over a year ago, the Swedish Environmental Protection Board reported that tyre abrasion on roads could release cancer-causing aromatic oils, triggering a public outcry.

Although the Swedish case was parried by the BLIC - the European rubber industry federation - it demonstrated how contentious tyres have become. However, environmental concerns about tyres are usually more mundane. The main problem is scrap. Despite efforts to find new uses for waste tyres, the world still produces far more tyres than it can recycle.

Any surplus must be dumped. But large quantities of scrap tyres are an eyesore at best. A fire in a tyre dump can burn for weeks, releasing noxious chemicals and smoke. Even tyres used for landfill can be a hazard, because they can form air pockets and make a site unstable.

International efforts to tackle tyre waste have taken two forms; first, manufacturers have tried to develop longer-lasting products to reduce the amount of scrap tyres (arisings) each year; secondly, governments and industry have attempted to stimulate existing uses of scrap tyres, such as retreading, and to find new outlets.

Take product development first. Tyre makers are pursuing three main lines of research; greater durability, to reduce arisings; innovative polymers to allow the use of more scrap rubber in new tyres; and reducing tyres' rolling resistance to cut fuel consumption.

The biggest progress has been in durability. Today's radial tyres last thousands of miles longer than the cross-ply products of 30 years ago, and the endurance of new products is being steadily extended.

New chemical compounds are under constant analysis. Up to 1.5 per cent of the weight of a new Pirelli tyre comprises recycled rubber "crumb" from scrap tyres, says Mr Renato Caretta, head of research and development. Within the next five years, Pirelli hopes to raise that to 10 per cent, he says.

Mr Rainer Stark, who takes charge of quality and environmental issues at Continental, Germany's biggest tyre maker, argues that advanced polymers can decrease friction and weight, reducing rolling resistance in two ways. Lower weight is particularly important when considering a tyre's entire life-cycle. "A lighter tyre causes less friction, saving fuel, and also needs less energy to manufacture in the first place", he says.

But most technical developments involve compromises on other aspects of tyre performance, argues Mr Caretta. "It is not hard to make a tyre which has less rolling resistance. The trick is to develop one which doesn't compromise durability, grip or snow traction in the process."

While research will continue for better long-term solutions, tyre makers have come under immediate pressure to tackle waste. The threat of legislation has been the stimulus.

In the early 1990s, the European Union identified tyres as one of the priority "waste streams" to be tackled as part of its anti-pollution drive. But although the final report of an EU-sponsored specialist working group in late 1993 identified various ways to cut the number of tyres being dumped, its findings have been ignored as other waste materials, notably packaging, have taken precedence.

Instead, the initiative for control has been taken by individual member states. The UK's free market orientation has favoured voluntary measures over legislation, leading to the creation of a working group of industry representatives and civil servants last June to boost recycling.

One reason for setting up the committee was to prepare the UK position for an eventual EU proposal on waste tyres. So far, however, the committee has concentrated on gaining more reliable data about tyre arisings and uses to see whether there is any truth behind the long-standing unofficial view that more than half the country's arisings are recycled.

In Germany, by contrast, tyre makers have taken action under the threat of legislation. In 1995, Reifen Entsorgungs Gesellschaft (REG), the recently-established waste tyre collection arm of Continental, handled almost one third of the estimated 500,000 tonnes of scrap tyres arising each year in Germany.

REG, which was created after fears that the government would pass legislation on tyre recycling in response to the influential "green" lobby, collects tyres from middle man or directly from big tyre dealers. Once collected, the scrap is sold as a fuel for combustion in the kilns of Germany's cement producers. In a new move, Continental has also just struck a deal with Oxy, a US company, to supply used, but safe, tyres to developing countries, where they will be retreaded and sold.

In Italy, by contrast, arisings remain a serious problem because of the lack of either voluntary or compulsory schemes. Only about 30 per cent of the country's scrap tyres end up in cement kilns, although Italy is one of the world's biggest cement producers, notes Mr Caretta.

He says the problem lies in getting manufacturers and dealers to work together.

The main problem is that no single company wants to foot the bill. Because of the size of the problem, such a venture would also be beyond the scope of a local or regional authority, meaning that funding must either come from Rome or the EU. In Germany too, bickering between manufacturers meant REG became a single-company venture, rather than a collective initiative. But pessimism or indifference seem hard to justify: even run unilaterally, REG hopes to turn its first profit this year, says Mr Stark.

While manufacturers throw up their hands in some places, technical progress elsewhere suggests all is not lost when it comes to tackling scrap. In the UK, the municipal authority in Sheffield has just won an EU subsidy for a proposed pyrolysis plant as part of a wider urban waste management project which has qualified for funds under the Regional Challenge scheme. If it goes ahead as planned, the new facility will break down scrap tyres into more useable chemical components.

> The new facility in Sheffield will break down scrap tyres

Meanwhile in Belgium, plans to build the world's biggest waste-tyres-to-energy plant have reached an advanced stage. Organised by Ms Anne Evans, the US entrepreneur who set up Europe's first such scheme at Wolverhampton in the British Midlands, the new plant expects to burn 100,000 tonnes of scrap tyres a year.

Like Elm Energy in the UK, the first such European project by Ms Evans, which is now owned by a mid-western US utility, the Belgian venture would burn tyres to produce heat to raise electricity. Spare steel from tyre bracings and other waste materials would be recycled.

Investments such as those in Sheffield and Belgium will not eliminate entirely Europe's tyre mountain. But a mixture of technical progress and greater use of existing technologies, such as retreading and grinding, should make a sizeable dent.

That should deepen once the EU shifts gear on a waste action plan. Although the proposals for tyre waste have been marking time since the working group's findings, one civil servant closely involved believes the pace will accelerate this year. The signs are that the Commission has already decided to propose a directive on the issue, rather than a less binding recommendation.

The risk, however, is that the waste rubber mountain will always bounce back. Signs that consumers in the fast-growing economies of eastern Europe are about to embark on a car-buying spree look ominous. While entirely understandable in social terms, the prospect of soaring mobility in the east means Europe's total scrap arisings may remain perilous.

ARCHITECTURE / SPORT

Vision of a footbridge link to the new millennium

It is time London had one clear proposal for its own project to celebrate the new millennium in 2000 – one that is striking, beautiful, practical and in tune with its great traditions as a developing city. Excitingly, there is such a proposal, one that fulfils all those criteria and, what is more, has a lot of support from the people of London.

What is proposed is a millennium footbridge linking St Paul's cathedral on the north bank of the River Thames to Bankside on the south side.

The project is entirely feasible, and has the support of the Millennium Commission, which has a great deal of money to hand out as its share of proceeds from Britain's national lottery.

When the commission agreed to provide half the funds for the Tate Gallery's proposals to convert Bankside power station, near Southwark bridge, into a gallery of modern art, it viewed the idea of a pedestrian link between Southwark and the City as an integral element.

The Tate had produced a simple sketch proposal of a link designed by Sir Norman Foster, and the estimated cost was £8m ($12.3m).

The key to the success of the project is the quality of design. Partly through its annual architecture award, which has been running for almost 30 years, the Financial Times has shown a commitment to good architecture.

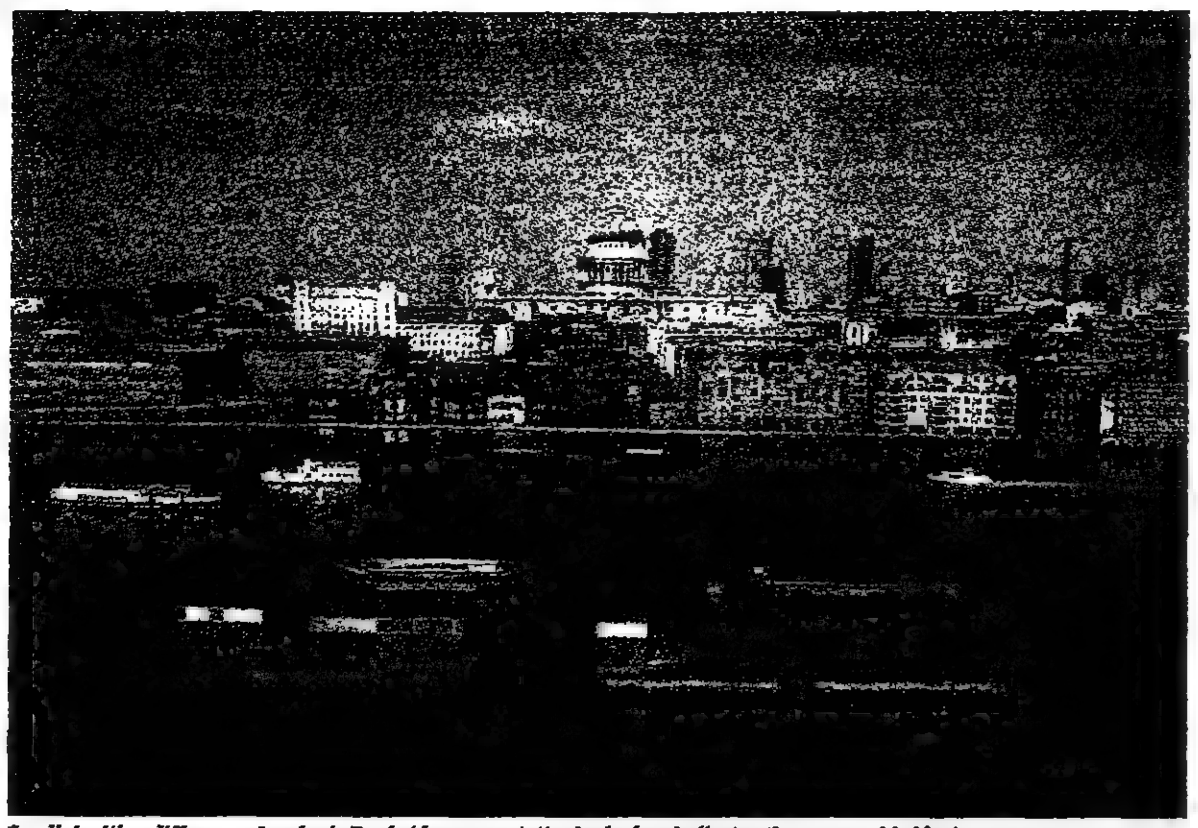
Today, the Financial Times announces that it is to organise an international design competition for the proposed millennium bridge. The Financial Times has been working as a catalyst to support the idea, and careful preparations have already been made to support an application from the Cross River Partnership to the Millennium Commission.

There are many good reasons for this new pedestrian link, and the idea enjoys the support of the two riparian local authorities concerned: the London borough of Southwark and the City of London.

Recently, a spokesman for the City said on BBC radio that the City was hoping to assist adjoining boroughs, and that the bridge was a genuine attempt to be seen working alongside the City's neighbours for the improvement of London.

There is something deeply symbolic about this bridge. It will be seen as a sign that London has changed. Gone are the days when Thames bridges were there mainly to bring crowds of bowler-hatted workers in from south London to work in the City.

The City is no longer only a hive of toiling clerks but a tourist hub that looks outwards, especially to the south where a cultural renaissance – Bankside's Tate Gallery of Modern Art and the nearby recreation of Shakespeare's Globe Theatre – is well underway. Riverside walkways on both banks are complete, and are gradually transforming the way Londoners use and enjoy the Thames.



Sundial with a difference: London's Bankside power station's shadow indicates the proposed bridge's span

The leader of Southwark Council, Jeremy Fraser, has made clear why he wants to see an elegant pedestrian link across the Thames.

He hopes to see a pedestrian bridge right in the middle of London that people do not have to share with trains or cars – it would be a bridge that would help people to enjoy the centre of London, with wonderful attractions on both sides.

The Cross River Partnership, which is made up of representatives of the London boroughs of Lambeth and Southwark and the Cities of London and Westminster, has stressed its belief that, providing the bridge is specifically seen as a link between the important attractions on each side of the river, it will be a magnet for tourists, visitors, Londoners and residents.

At present, St Paul's attracts 4.5m visitors a year, while the Tate is predicting 2m visitors at Bankside in the early years. The journey by foot across the river from St Paul's steps to Bankside would take about 7 minutes. At present, to walk from St Paul's to Bankside means a journey via Blackfriars or Southwark bridges, and that takes about 20 minutes.

The directness of the link makes the idea of a new bridge attractive, and there is no doubt it will offer some of the best views in London.

The City Corporation and Southwark have already staged a promising joint presentation of the idea at Guildhall.

A planning brief by the firm of Montagu Evans and a technical brief by Ove Arup and Partners, consulting engineers, were presented as guidelines.

In turn, the Financial Times is well placed – and pleased – to act as independent organiser of the design competition.

Design is crucial, and this competition offers a wonderful challenge to architects and engineers around the world. Thames bridges have always been controversial and exciting – partly, I suspect, because of their symbolic power.

Even Dr Johnson objected violently to the new Blackfriars bridge in 1760 as it was going up, but when it was finished he became its greatest admirer and a friend for life of its architect, Robert Mylne.

If there are any doubts about the proposed millennium bridge, they concern its effect on the prospect of St Paul's. It has to be said that an elegant parabola arching across the Thames will enhance the view.

Yet everything depends on securing the finest design. St Paul's has suffered so much from the visible horrors all around it that it will be necessary for the bridge to remove some of the eyesores.

Watch this space for details of the design competition. I see the millennium bridge as a rainbow across the Thames, with magnificent pots of gold to be found at either end.

Colin Amery

Keith Wheatley

Super Bowl XXX's granite-jawed ghost

Don Shula, coach of the Miami Dolphins, was the ghost at yesterday's Super Bowl XXX clash between the Dallas Cowboys and the Pittsburgh Steelers in Phoenix, Arizona. The recent involuntary departure of the Dolphins' coach, the most revered and successful figure in modern National Football League history, has been the issue of the day for many football fans.

He came to Miami in 1970, after eight years leading the Baltimore Colts. He was hot, but not yet a star. The most remarked upon thing about the newly arrived Shula was his massive granite jaw. A quarter of a century later, his presence is everywhere.

A Don Shula expressway skirts Miami's international airport and a resort hotel complex bears his name, as does a chain of steak restaurants. These tributes were not awarded for mere sporting longevity. In that inimitable American phrase, Shula has been the "winningest" coach in NFL history.

Two years ago the Dolphins gave Shula, 66, his 325th victory, taking him past the record set by George Halas. Shula remains the only coach to have taken his team to six Super Bowls, winning two of them. Unfortunately, the most recent was 23 years ago.

Shula's *annus mirabilis* was 1972. The Dolphins went the entire season unbeaten: a 17-0 record never equalled in pro football. In the same season, at the Super Bowl, the Dolphins beat Washington 14-7. If the silverware has been elusive since, there has still been consistent success and a sense of fine style about the Miami team.

A sports statistician compared the four big US pro team sports in the wake of Shula's dismissal. With football, baseball, basketball and ice hockey results analysed over a quarter of a century, the Dolphins had a better win percentage than any team in any sport.

What went wrong? Why the emotion-charged farewell press conference which even chat-show host Larry King took his show on the road to attend, and at which golfer Ray Floyd, a neighbour of Shula's, took the podium with his friend to lend moral support?

This could have been comeback year for the Don and his Dolphins. They started the season with a 4-0 winning streak, many predicting another Super Bowl, at long last. Not least optimistic was Dolphins owner Wayne Huizenga, with 12m reasons to be hopeful. That is how many of Huizenga's dollars Shula spent in the 1995 close season on signing-on bonuses for new players.

Much of it was an effort to provide support for the Dolphins' only real star, quarterback Dan Marino. There were signs that Shula felt guilty that Marino, in 13 loyal seasons, had never qualified for the Super Bowl ring that all football players treasure. "Dan's running out of time. I just hope he can still make it to the big one," Shula said in a pre-season interview.

As the mid-season slide began, Marino made a dignified effort not to get into "finger-pointing" at the coach. But the locker-room dissent was plain to see. The massively expensive players that Shula had chosen on the free agency market failed to gel under his traditionalist regime. The raging sideline tantrums of defensive player Bryan Cox were a case in point.

But there are other conspicuous failures among the new-look Dolphins. Handling the precocious egos of expensive sporting heroes is not Shula's forte. He comes from a different era, and his iron-fist leadership style is more Marine Corps than Mark McCormack.

His rages are legendary. "Geez, you need to work on your temper," Colts receiver Ray Berry told the young Shula. Few Dolphins players dared answer back. In a rare example, 1972 Super Bowl hero Johnny Unitas handed Shula the ball after an explosive dressing-down. "Here," he said. "You want to be the quarterback. Take the ball."

In Shula's wake, respected US football commentator Paul Attner wrote: "An age of coaching dictatorships goes with him – an era built on huge tempers and an obsession with rigid rules and regulations. Ask Shula now what he is most proud of and he will tell you that he was honest and consistent and the teams stayed within the rules."

Almost every season the Dolphins earned an annual award as the NFL team with the fewest penalty yards given against them – until 1995, when only eight teams in the US had collected more demerits. "I don't know what the hell happened to us," said a shamed Shula.

On the Miami airwaves, the past six months have been open season on Shula. The sports-talk radio stations have put rabid callers on air to demand the coach's firing. Newspapers followed the charge, citing "criticism on the talkshows" as the reason for another Shula-must-go blast.

Looking for some decency and perspective on the issue, I turned to the online world. Don Shula is enough of a sports landmark on the Net to have his own newsgroup.

Most contributions were measured and thoughtful, unlike the radio rednecks. This was typical: "Those [south Florida sportswriters] who have relentlessly hounded and belittled Don Shula over the past several seasons are already beginning to realise the stupidity and cruelty of their comments . . ."

Now Shula has stepped down, the same sportswriters who bashed him will probably write columns about "The Legend" and his accomplishments.

According to a fan called "Michael in DC" on the Net: "I have been a diehard Dol-fan for 15-plus years, and the treatment Shula has received of late is an outrage. The ambivalence that many of us feel about his retirement is easy to understand. We are sad that a man we respect and admire is leaving a team we love, but are hopeful that a better coach can be found who can mould a team that performs at a higher level."

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

UK COMPANIES

OPENINGS

ROME
Luciano Pavarotti and Mirella Freni sing Rodolfo and Mimì in Giuseppe Patroni's centenary production of Puccini's "La Boheme" at the Teatro Regio in Turin from Thursday. The opera was first performed at this same theatre on February 1 1896, with Toscanini conducting and Puccini in the audience.

MUNICH
The Barbizon school of mid-19th century French landscape painting is the subject of an exhibition opening at the Haus der Kunst on Sunday. It brings together around 300 works by 12 members of the school, including Millet (left), Rousseau and Diaz. The Barbizon painters aimed at an unprettified rendering of peasant life and scenery, and are often seen as precursors of Impressionism.

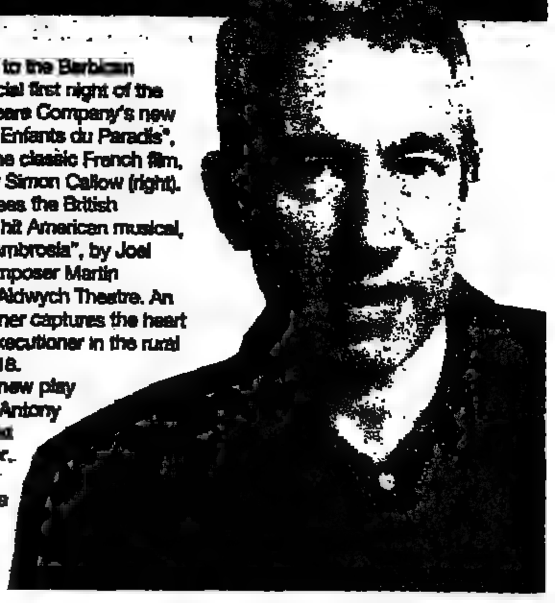
More than 70 paintings by Arnold Schoenberg (1874-1951) go on show at the Lenbachhaus on Wednesday. Better known as a composer, Schoenberg was a self-taught painter, whose hypnotic, hallucinatory portraits were admired by Kandinsky and other members of the Blue Rider group.

WASHINGTON
Louis-Leopold Boilly (1761-1845) was the leading genre painter and one of the most prolific portraitists in France during the revolutionary and Napoleonic periods. An exhibition opening at the National Gallery of Art on Sunday will include about 50 of the artist's finest oil paintings (right) from museums and private collections around the world. All aspects of Boilly's art will be represented: his early pictures in the Dutch manner, scenes of Parisian leisure and entertainment, revolutionary portraiture, still life and the study of physiognomies.

LONDON
Tuesday brings to the Barbican Theatre the official first night of the Royal Shakespeare Company's new staging of "Les Enfants du Paradis", adapted from the classic French film, and directed by Simon Callow (right).

Wednesday sees the British premiere of the hit American musical, "The Fields of Ambrosia", by Joel Higgins and composer Martin Silvestri, at the Aldwych Theatre. An immigrant prisoner captures the heart of a travelling executioner in the rural Louisiana of 1918.

Pam Gems's new play "Stanley", with Antony Sher as the artist Stanley Spencer, opens at the Cottesloe, in the National Theatre, on Thursday.



The enigma of Diaghilev

An exhibition at the Barbican explores the great impresario's Russian roots, writes Clement Crisp

"It was clear from the very first that his early years, through war and revolution buried in a now remote past, were the important ones in any attempt to discover the man himself."

It was with these words that Arnold Haskell prefaced his biography of Sergei Diaghilev. Published in 1935, six years after Diaghilev's death, it remains an unrivalled portrait, despite the brilliant and detailed later work of such specialists as Richard Buckle and Lyn Garafola.

Haskell knew Diaghilev and closely observed the working and work of his company in the final decade of the Ballets Russes' existence. Yet even today, perhaps because of the dire proliferation of studies and analyses, and the cruel misrepresentation in performance of ballets he brought into being (I recall the Kirov's madcap romp in the name of *Scheherazade*, and Birmingham Royal Ballet's Bognor-based *Tricorne*), Diaghilev remains enigmatic.

The later persona – the autocrat ever in quest of the new, galvanising everything and everyone by his own intellectual and physical energies ("we have all eternity to rest in," he said as he dragged a protégé around another Italian museum); the man whose dazzling taste not even adversity or financial drama could curb – is well documented. Memoirs from his time summon up this imposing figure, from Osbert Sitwell chronicling Armistice night in London in 1918 with Diaghilev and Massine, to Osbert Lancaster sketching in pen and words Diaghilev's progress, with entourage, through the rooms at Monte Carlo's casino a decade later.

But as Haskell so acutely noted, it is the early and formative years in Russia that hold the key to his personality and to what Diaghilev did in the west after 1905, when at the age of 33 he sought a new world to conquer.

These Russian years – up to 1914 when war turned him into an émigré – are the matter of a fascinating exhibition at the Barbican. *Diaghilev, Creator of the Ballets Russes* is concerned with his artistic roots and the milieu in which he grew up, and which he was to influence by publication and exhibitions until his great ventures in Paris: the 1906 exhibition, the concerts, opera performances and the culminating, because decisive, 1909 season of ballet and opera. Five years later, world events and his own nature would turn him firmly towards western European art and associates.

Though we know of Diaghilev's place in the tremendous artistic activity in Russia as the 19th century closed (Camilla Gray's *Russian Experiment in Art* remains an invaluable guide to the years spanning the start of our century), this exhibition allows us to taste something of the actuality of the art world which shaped Diaghilev and which, through his *World of Art* magazine, he was to help shape.

So there are paintings, drawings, ballet costumes and objects, ranging from Vrubel (whose monster fireplace in glazed tiles celebrating the Volga is a splendid coup for the show) to such enchanting little things as Levitan's water-colour "Autumn". (The early death of Levitan, a favourite of the *World of Art*, was marked by special issues of the magazine.)

The exhibition's trump card is the generous borrowings it offers from Russian collections. Under the new dispensation, the work of Diaghilev and his associates has gained increasing interest among Russian scholars. So Ann Kodicek, who masterminded this show, has been able to bring works from several Russian museums, from the great Tretyakov and Bakhrushin collections, from Petersburg's state museums, as well as from France, Britain and the US.

How splendid it is to see again the Bakst portrait of Diaghilev, painted just as he set out on his journey westward – from the Petersburg State Museum. He stands in his apartment, sleekly handsome, gleaming as to shirtcuff, his gaze – his eyes like Portuguese oysters, said Cocteau – challenging, and seated in the background, his childhood nanny.

He was in his early 30s, and the great world is waiting for him. To understand what has given him this poised, commanding manner, what has shaped his taste, is the matter of what we see on the Barbican's walls. So, in a series of well-reasoned rooms, we find the works of Repin, Bilibin, Dobuzhinsky, Lanceray (what a charmer as a draughtsman), Maliavin, and the masterly work of Serov (dazzling portraits of Rimsky and of Tsar Nicholas II; and a tiny sketch of Nijinsky that could turn anyone into an art-thief) and Somov (who drew with the felicity of Ingres).

There are important Vrubels ("Pan" and the "Swan Princess"), and, of course, Benois and Bakst in profusion. Benois' sense of the past is vivid in his evocations of Petersburg and Versailles, as it is in the *Petrushka* designs. Bakst's portraiture – a wonderful drawing of Ida Rubinstein, whose beauty seems to transcend fashion and time – and the later blaze of his costume designs, are well known, but still intoxicate the eye.

Tamara Karsavina as the young girl in 'Le Dieu Bleu', 1912

Alexandre Benois' design for Mademoiselle Briand's costume in 'Le Rossignol', 1914

In the later rooms of the show, and notably with the staging of *Le Sacre du printemps*, we see the great change that is happening. Diaghilev is turning away from the early exoticism that made his ballet's name. (In a Parisian boulevard comedy of 1910 there is the celebrated line: "We're starting to move in the right circles, with very chic friends, very gamey, very Ballet Russe.") His future, and he surely sensed it, is to be in the west. History made it so: he never returned to Russia after 1914.

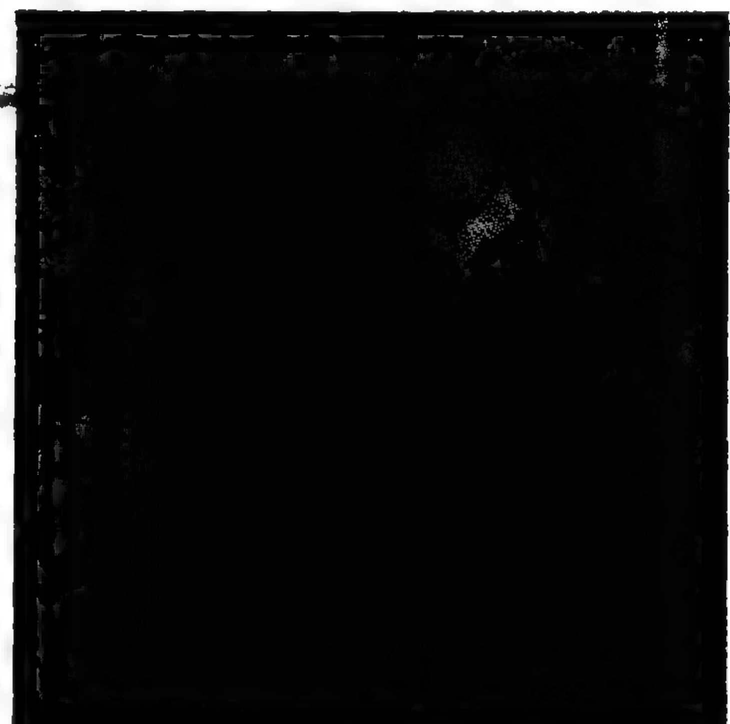
Speaking at a banquet to mark the profoundly nostalgic exhibition of Russian historical portraits which he mounted in Petersburg in 1905, Diaghilev said: "We are witnesses of one of the greatest moments of summing-up in history, in the name of a new and unknown culture, which will be created by us, and which will also sweep us away."

He spoke unwittingly of his own destiny, and reminds us yet again of his enduring influence upon the intellectual and artistic life of Russia and then of the world. This exhibition helps us to understand what he did.

There is a well-illustrated catalogue, with informative – if not especially profound – articles covering various aspects of Diaghilev's work. The weird bonus is a section entitled *Notes on productions* which is written with radiant misconceptions about ballets in performance and with a quaintly demure and unidiomatic turn of phrase. "A faun reposes on a sunny hillside. He plays on a lute [sic] and enjoys a bunch of grapes . . . Disconsolate at the loss of his playmate, the faun" (supposedly Nijinsky's, but I'd venture it is Enid Blyton's) "is sad. Seeing the scarf, he takes it up in his arms and bears it to his retreat, where he consoles himself by fondling it." Tiens!

There are many more such Bowdler-ish moments, not least "a swarm of fairies" in *Sleeping Beauty* who breathe upon the baby princess a magic spell endowing her with "desirable qualities". Literacy and accuracy are, in catalogues, also desirable qualities.

Diaghilev continues at the Barbican Art Gallery until April 14.



Leon Bakst's portrait of Diaghilev with his nanny, 1904-06

Music/Adrian Jack

Talent showcase

All five composers in the London Sinfonietta's recent showcase concert of new, or newish, talent at the Queen Elizabeth Hall were inspired by extra-musical stimuli, either visual or literary.

The American Michael Gandolfi's points of departure in *Design School*, completed last year, were the lithographs of Max Escher which, Gandolfi said, were not works of great expressiveness but of great design.

Gandolfi's four movements for nine players remained on that level, too. The first was beautifully sharp and simple, the second playful, a bit like Ligeti, but eventually fell victim to banal logic. The still opening of the third movement showed off Gandolfi's excellent ear for limpid instrumental sonorities, though its contrapuntal elaboration seemed disappointing by comparison, and the brisk, moto perpetuo-like finale was tidy and slick.

The Romanian, Luminita Spinu, now studying in London, produced, in *Of Tears and Saints*, a piece less closely linked to its avowed inspiration in the writing of Emil Cioran. Scored for 15 players, a lot of it was very dark, like a thick, writhing web of vaguely chant-like melodies. There was a faintly exotic flavour, with the occasional augmented second piercing the gloom.

The Englishman Richard Causton took a painting by Salvador Dali as one of the sources of *The Persistence of Memory*, which he completed last year. The music, for 12 players, one on specially built chime bars, was correspondingly atmospheric and dreamlike, built largely on the ringing of clocks, with rude breakings of wind from horn and clarinet. It was quite pretty.

Karen Markham's *The Wheel has Turned* was impressive on a technical level. Scored for 10 players, the inspiration came from *A Mystical Journey*, a children's book by a Sufi writer.

Finally came a "Good Idea" piece, by the American Ron Ford, who lives in the Netherlands. Called *Inferno 1,32*, which refers to a passage in Dante's *Divine Comedy*, it set, in the first place, a parable by Jorge Luis Borges for soprano in rising scales, counterpointed with a viola, the two cemented together by the sounds of a bandoneon.

Independently, an ensemble of 13 players stabbed out brutish, dissonant chords in syncopated staccato, while landmarks in the 20-minute piece were loudly announced by enormous thwacks on drums. When Borges' words, translated into English, were superseded by Dante's original Italian, the soprano switched to rapid whispering against solitary notes on the piano.

On the podium were Oliver Knussen, who would have been a gift to 19th-century caricaturists, and Stefan Asbury.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Mitsuko Uchida: the pianist performs Schubert's Sonata No.17 in C minor and Sonata No.18 in A, and Schoenberg's 3 Pieces, Op.11; 8.15pm; Feb 3

■ BERGEN

CONCERT
Grieghallen Tel: 47-55-216150
● Bergen Filharmoniske Orkester: with conductor Janos Fürst and violinist György Pauk perform works by Rossini, Szymanowsky and Brahms; 7.30pm; Feb 1

■ BERLIN

CONCERT
Konzerthaus
Tel: 49-30-203092100/01
● Rundfunk-Sinfonieorchester Berlin: with conductor Arnold Ostmann perform Haydn's Symphony No.102 in B-flat and Sibelius Symphony No.2 in D, Op.43; 8pm; Feb 2
OPERA & OPERETTA
Komische Oper Tel: 49-30-202600
● Komische Oper: with conductor Joachim Willert perform Mascagni's Cavalleria Rusticana and Leoncavallo's Pagliacci. Soloists include Slavkova, Bach-Röhr, Spiewok and Neumann; 7pm; Feb 2

■ BOSTON

CONCERT
Boston Symphony Hall
Tel: 1-617-266-1492
● Boston Symphony Orchestra: with conductor Seiji Ozawa perform Beethoven's Symphony No.4 and R. Strauss' Eine Alpensinfonie; 8pm; Jan 30
New England Conservatory – Jordan Hall Tel: 1-617-262-1120
● Jason Horowitz: the violinist performs Handel's Sonata in A Major, Op.1 No.3, R. Schumann's Sonata in D minor, Op.121, Sibelius' Sonatine, Op.80, and Beethoven's Sonata in D, Op.12 No.1; 8pm; Feb 1

■ DUBLIN

CONCERT
National Concert Hall – Geoláras Náisiúnta Tel: 353-1-6711533
● Geoffrey Buckley: the pianist performs Beethoven's Sonata in G minor, Op.49 No.1 and Kinsella's Reflection, sonata in C minor, Op.111; 1.05pm; Feb 2

■ HELSINKI

OPERA & OPERETTA
Opera House Tel: 358-0-403021
● Die Fledermaus: by J. Strauss. Conducted by Ari Angervo and performed by the Finnish National Opera. Soloists include Jukka Salminen, Ritva-Liisa Korhonen, Pekka Kähkönen and Eeva-Liisa Saarinen; 7.30pm; Jan 30

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● Orchestre de Paris: with conductor Semyon Bychkov and violinist Maxim Vengerov perform Amy's Three Scenes pour Orchestre, Mendelssohn's Violin Concerto and Stravinsky's Le Sacre du Printemps; 7.30pm; Feb 2
OPERA & OPERETTA
Royal Opera House – Covent Garden Tel: 44-171-3044000
● Samson et Dalila: by Saint-Saëns. Conducted by Jacques Delacôte and performed by The Royal Opera. Soloists include Dolora Zajick, José Cura, Robin Leggate and Roderick Earle; 7.30pm; Jan 30; Feb 2, 5

■ LYON

CONCERT
Auditorium Tel: 33-78 95 95 95
● Orchestre National de Lyon: with conductor Klaus Weise, the Choeurs de Lyon-Bernard Têtu and pianist Jean-François Heisser perform Beethoven's Meeresstille und Glückliche Fahrt and Dvorák's Symphony No.6; 8.30pm; Feb 1, 3 (6pm)

■ MILAN

OPERA & OPERETTA
Teatro alla Scala di Milano
Tel: 39-2-72003744
● Madama Butterfly: by Puccini. Conducted by Riccardo Chailly and performed by the Opera Teatro alla Scala. Soloists include Carlos Alvarez, Francesca Franci and Galina Gorchakova; 3pm; Jan 30; Feb 1, 3, 4

■ NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● New York Philharmonic: with conductor Kurt Masur and pianist Philip Smith perform Mozart's Eine kleine Nachtmusik and R. Strauss' Till Eulenspiegels lustige Streiche; 2pm; Feb 3
DANCE
New York State Theater
Tel: 1-212-875-5570
● New York City Ballet: perform the choreographies Swan Lake, Firebird, Afternoon of a Faun and Western Symphony; 8pm; Jan 31
OPERA & OPERETTA
Metropolitan Opera House
Tel: 1-212-362-6000
● Falstaff: by Verdi. Conducted by James Levine and performed by the Metropolitan Opera. Soloists include Barbara Bonney, Barbara Daniels, Marilyn Horne and Paul Plishka; 8pm; Jan 30; Feb 3 (1.30pm)

■ OSLO

CONCERT
Oslo Konserthus
Tel: 47-22-834510
● La Damnation de Faust: by Berlioz. Concert performance by the Oslo Filharmoniske Orkester with conductor Marc Soustrot, the Oslo Filharmoniske Kor and the Filharmonikens Kammerkor. Soloists include mezzo-soprano Randi Stene, tenor Keith Lewis, and basses Jean-Philippe Lafont and Carsten Stabell; 6.30pm; Feb 1, 2

■ PARIS

CONCERT
Théâtre des Champs-Elysées
Tel: 33-1 49 52 50 50
● Ensemble Orchestral de Paris: with conductor Stefan Sanderling and soprano Nathalie Dessay perform works by Schubert, Glière and Rachmaninov; 8.30pm; Jan 30
THEATRE
Comédie Française, salle Richelieu Tel: 33-1 40 15 00 15
● Phèdre: by Jean Racine. Directed by Anne Delbée and performed by La Comédie Française. The cast includes Catherine Samie, François Beaulieu, Martine Chevallier and Albert Aveline; 8.30pm; Feb 1, 3

■ SALZBURG

CONCERT
Grosses Festspielhaus
Tel: 43-662-80450
● Requiem: by Mozart. Performed by the Wiener Philharmoniker, conducted by Carlo Maria Giulini. Soloists include soprano Sylvia McNair, alto Nathalie Stutzmann, tenor Anthony-Rolfe Johnson and bass Alastair Miles. Part of the Mozartwoche '96; 7.30pm; Jan 30

■ STOCKHOLM

OPERA & OPERETTA
Kungliga Teatern – Royal Swedish Opera House Tel: 46-8-7914300
● Le Nozze di Figaro: by Mozart. Conducted by Markus Lehtinen and performed by the Royal Opera Stockholm. Soloists include Gunnar Lundberg, Britt Marie Aruhn and Rolf Cederlof; 7pm; Jan 30; Feb 2

■ VALENCIA

EXHIBITION
IVAM Centre Julio Gonzalez
Tel: 34-6-3863000
● David Smith: retrospective exhibition devoted to the American artist (1906-1965), showing some 50 sculptures made between 1933 and 1965. Central theme of the exhibition is the special relationship of David Smith with European art, particularly with the Surrealist work of Picasso and Julio González. Smith's work ranges from the semi-representational to monumental geometric constructions; from Jan 31 to Mar 31

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Bell'Arte Ensemble: perform Mozart's Flute Quartet No.3 in C, Dvorák's Bagatelles, Op.47, and Lanner's waltz Abendsterne; 0.30pm; Jan 31

■ WASHINGTON

DANCE
Terrace Theater
Tel: 1-202-467 4600
● Denishawn Repertory Dancers: perform Ruth St Denis' and Ted Shawn's Schubert Waltzes to music by Schubert, 2nd Arabesque to music by Debussy and Japanese Speardance to music by Horst; 7.30pm; Jan 30, 31

WORLD SERVICE

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European Money Wheel
Nonstop live coverage until 14.00 of European business and the financial markets

17.30
Financial Times Business Tonight

Midnight
Financial Times Business Tonight

Michael Prowse · America

Politics for adults

Popular discontent in the US is less a reflection of actual failings than of absurdly high expectations after 1945

The paradox of our time, says Mr Robert Samuelson, a much-admired US columnist, is that "Americans are feeling bad about doing well". By objective standards, he claims in *The Good Life and Its Discontents* (Times Books, New York, $25), the US has been enormously successful in the past 50 years. Yet the public mood seems to be permanently grumpy. People complain they feel economically insecure. They are fearful of the future. Confidence in government and other institutions has dropped to pitiful levels.

Some will say this is a phoney paradox: Americans are rightly depressed because their nation is indeed troubled. I think Mr Samuelson successfully rebuts such objections. He points out that the US has won the cold war and enjoyed half a century of nearly unbroken economic growth. Compared with the 1950s, it has made great strides in reducing racial, sexual and ethnic discrimination. A fifth of the population has a college degree, compared with 5 per cent in 1940. Americans have greater wealth, freedom and opportunity than ever before.

Living standards may have risen less rapidly since the early 1970s. But progress has been more impressive than is often appreciated. Since 1970 the average size of US homes has risen by an astonishing 40 per cent. By 1994, the proportion of households with video-cassette recorders, telephone answering machines and personal computers – products that did not exist in 1970 – had risen to 81 per cent, 58 per cent and 37 per cent respectively. These and other comparisons show that middle-income families are still benefiting from economic growth, despite claims of "stagnant" earnings.

So why is the public mood so ugly? Mr Samuelson recognises troubling social problems, such as high crime rates and family breakdown. But he argues, plausibly in my view, that the discontent mainly reflects absurdly unrealistic expectations. He calls the post-1945 period the "age of entitlement". By entitlement he means not just the expectation that government would provide ever-increasing social benefits but a "conviction that we could completely control our economic, social and political surroundings". He says Americans blurred the distinction between progress and perfection. "We expected almost limitless personal freedom and self-fulfilment."

The entitlement mentality – Americans' sense that they should have almost anything they desire – arose out of a peculiar train of historical events. Overcoming the Depression and winning the second world war "gave us the confidence we could do almost anything". And the spectacular post-war boom only reinforced US self-confidence "because we seemed to be eliminating all traces of human want". The delusion that the trials of life could be abolished was further encouraged by the comically exaggerated claims of economists and corporate executives. The Keynesians of the 1960s thought they had abolished the business cycle; the likes of International Business Machines and General Motors saw themselves as impregnable national champions.

Today's discontent thus reflects "the disappointment of unrealistic hopes". Americans wanted the benefits of a market economy but none of the drawbacks. They wanted perpetual growth without instability and sacrifice. They sought the impossible: a society in which everyone could be a winner, all the time.

With the inevitable dashing of these Utopian hopes, he argues, Americans "felt betrayed and righteously indignant". Someone or something had betrayed the American dream and would have to pay for it. Ever since, a confused public has been looking for scapegoats. The table shows how public confidence in Congress, the White House, big companies, universities and other institutions has plunged in recent decades. The problem, according to Mr Samuelson, is that the US is judging itself against impossible standards.

Americans, he suggests, must stop whining and blaming other people (or the government) for their troubles. Like their forebears they should understand that life is "full of chance and uncertainty". They should recognise that nobody is "entitled" to anything and embrace a new ethic of "responsibility".

What might this involve? Well, at a minimum, the federal government should balance its budget and curb the growth of entitlement programmes such as healthcare and pensions for the elderly. Washington should also recognise that affirmative action (preferential treatment of minorities) has "outlived its usefulness". It was wrong, he argues, to enact laws that separated individual effort from reward. More generally, he urges a return to the core American belief that individual salvation is to be sought "through hard work, thrift and competitive struggle".

Mr Samuelson, one of the most balanced pundits in Washington, has produced a classic analysis of the post-1945 era. *The Good Life* should be required reading for anybody seeking to understand the modern US. Being broadly in sympathy with the thrust of the argument, I have only a few minor quibbles.

The first is that the author is being disingenuous when he tries to rise above political labels such as "liberal" and "conservative". He has written a devastating critique of the liberal (in the US this much-abused word has roughly the same meaning as social democratic in Europe) conception of society. As he well knows, the entitlement mentality that he derides is principally the legacy of Democratic social reformers. In US terms, Mr Samuelson is a conservative, even if he bridles at the label.

My other objection is that he fails to carry his arguments to their logical conclusion. He writes eloquently of the virtues of markets. He calls for greater personal responsibility. He blames excessive reliance on government for most of the US's ills. But he ends by proposing only modest curbs to the largest federal programmes; with the exception of his brave denunciation of affirmative action, he defends something close to the status quo. Yet the logic of his book calls for a significant shrinkage of government – a return, perhaps, to the boundaries established before the age of entitlement.

In search of scapegoats

*Confidence in institutions

	1966	1975	1985	1994
Congress	42%	13%	16%	8%
Executive branch	41%	13%	15%	12%
Major companies	55%	19%	17%	19%
The press	29%	26%	16%	13%
Colleges, universities	61%	36%	35%	25%
Medicine	73%	43%	35%	23%

* The proportion of respondents who have "a great deal of confidence in the above institutions"

Source: The Good Life and its Discontents

·LETTERS TO THE EDITOR·

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We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com. Translation may be available for letters written in the main international languages.

Danger in making rubbish of forecasting

From Mr James Morrell.

Sir, A significant problem arises from the substantial margins of error in many statistical series and the constant revisions to these data. An important example was provided in your article "Economists squeal as US alters key statistics" (January 20/21). The US national income accounts have been revised following a change in methodology and now show a growth rate of 2.6 per cent per annum for the period since 1991 and not 3.1 per cent. Rubbish in equals rubbish out in the heavy econometric models and money would be better spent on improving the quality of the data.

The object of a forecast should be to depict and predict the world as it really is and is not necessarily what the national income accounts show. Success depends on two main factors: first, interpreting what is happening in the world and, second, guessing the prospective changes in government policy.

A panel of external advisers should be able to help towards a better understanding of the outside world even if barred from discussing policy changes. In the 1960s and 1970s the Treasury hosted annual off-the-record discussions with about a dozen of us engaged in forecasting, largely to take the pulse of the economy and views of the unfolding changes.

While running the Henley Centre for Forecasting I maintained an external forecasting committee of about 15 members from a wide range of sectors, including finance. We gained a more up-to-date slant on the economy, a useful contribution to our own forecasts and more confidence in anticipating the likely changes in fiscal and monetary policy.

After more than 40 years in forecasting I conclude that the essential requirements are a deep sense of history, a political nose and a feel for social change.

James Morrell,
James Morrell Associates (Publishing),
1 Paternoster Row,
London EC4M 7DH, UK

Sound strategic reasons to help Ukraine create market economy

From Mr Alexander Pivovarsky.

Sir, In his article "Behind the new iron curtain of Europe" (January 23), Dr Anders Aslund correctly criticises the narrow-mindedness and parochialism of the EU in its disregard of Ukraine and its reform process.

Ukraine emerged as an independent state after centuries of colonial rule and decades of an industrial policy heavily biased toward low value-added and highly energy-intensive production of steel, chemicals and heavy machinery. If left alone at this time of radical structural adjustment, the country may be threatened by civil unrest and social instability – with ominous consequences for the rest of Europe.

The current EU protectionist trade policy fosters Ukraine's foreign trade bias towards Russia, itself muddling through a process of economic reform and not an ideal of economic stability. Moreover, heavy dependence on this single trading partner establishes a potential for Ukraine to fall victim to Russia's imperial ambitions – again with disastrous results for Europe as a whole.

Apart from serious structural problems, Ukraine is forced to deal with the consequences of the Chernobyl disaster. In the first nine months of 1995 alone the Ukrainian government spent close to $400m for this purpose, an amount roughly equivalent to the country's total expenditures on defence.

In the current situation of falling production and substantial budget deficit it is well beyond Ukraine's means to carry the full burden of the Chernobyl nuclear plant's closure.

For geopolitical and strategic reasons it is in the vital interests of the EU and the US to assist in creating a stable market economy in Ukraine. Direct transfer of resources is one, but not the only, way to provide such assistance. A free or at least less protectionist trade regime vis-à-vis Ukraine is another important way to assist the fledgling Ukrainian economy.

Alexander Pivovarsky,
associate,
Harvard Ukrainian Research Institute,
1583 Massachusetts Avenue,
Cambridge MA 02138, US

A mind-set for innovation

From Mr John D. Emanuel.

Sir, Vanessa Houlder ("Innovation under the spotlight", January 22) reviews some current thinking on innovation. In our experience, innovation by companies requires two essential components:

- a mind-set to innovate; and
- a sufficiency of good opportunities.

The mind-set to innovate has been given a great deal of attention in recent years by both government and private sector.

The commitment to innovate by key decision makers is of the essence, coupled with a willingness to accept that innovation includes risk.

Opportunities can be generated within the company by research and technical development, by brainstorming, and from inspirations and new perceptions.

But opportunities are available in far greater quantity from external sources. Companies and development organisations all over the world are ready to offer proven technology and to negotiate joint ventures and licences with sound UK companies.

Such opportunities can be turned into profitable business growth, often quickly and at modest risk.

In Korea, where local R&D is still in its early stages, licensing-in technology is the major engine of growth. The director of corporate development of one of the large Korean companies told me they were negotiating more than 100 licences per year to support their expansion programme.

We need to put other people's inventiveness and innovations to work, as well as our own.

John D. Emanuel,
managing director,
Pax Technology Transfer,
112 Boundary Road,
London NW8 0RH, UK

Resentment understood

From Elie A. Alcalay.

Sir, While I have, for a long time, marvelled at how Observer manages daily to cast France in a negative light, I think he really outdid himself in his item "Name calling" (January 22). In four short paragraphs Observer managed to insult the memory of the late president and to trivialise the achievements of someone who dominated contemporary French history. My first thought was that it was Mr Mitterrand's European vision that earned him Observer's thinly disguised sarcasm.

On second thoughts, though, and having just returned from a visit to London, I cannot help but understand the resentment. The nation that Mitterrand presided over enjoys a far higher standard of living than Observer's home country; indeed, with every visit to France, I leave ever more impressed with the achievements. I wish I could say the same about the UK where, sadly, the quality of life has degenerated to such a degree that the only word I can think to characterise everything from plumbing to food to public transport is: "wretched".

Elie A. Alcalay,
2 Beekman Place,
New York, New York, US

Rather an outdated view

From Mr William Sibree.

Sir, Mr Greg Jeffreys (Letters, January 24), commenting on lawyers with regard to the Maxwell case, shows he has a very Dickensian view of modern lawyers. I suspect they can take a point shorter than he did his.

William Sibree,
Slaughter and May,
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1040 Brussels,
Belgium

Samuel Brittan

What few know about Emu

The Round Table on economic and monetary union in Brussels last week impressed on me how many myths need to be slain about Emu, irrespective of whether one welcomes or opposes the project.

● Although vast amounts of paper on Emu circulate within a small circle, there is a huge information deficit – not just among the public, but also among business executives, traders and even bankers. How many people know that the last European Union summit in Madrid decided on a three-year gap between the "irrevocable" fixing of exchange rates and the conversion of existing currencies into Euros?

● The plan for handing in all national currency in the first six months of 2002 is unrealistic. We must accept that many people will go on thinking in terms of their own national currencies to the end of their days, if only because of the highly awkward conversion rates – such as DM1.7 or FFr6.4 to the Euro.

Decimalisation in Britain was based on the familiar unit of a pound and continued to make use of the old coinage. General De Gaulle's new franc was simply worth 100 old francs. The old lady crossing the Rhine will insist on using a familiar currency for small transactions, whether or not it is legal tender; and no harm will be done.

● Areas of uncertainty remain which cannot be resolved before Emu. Too many people insist on demanding to know how much growth will increase and how many jobs will be created as a result of Emu. There is no science that can tell them this.

I would hazard a guess that most mainstream economists are sceptical of the Maastricht blueprint for monetary union. But few human projects, including German unification, would have taken off if political leaders had waited for expert approval.

● EU public opinion favours a single currency but expects it to destroy more jobs than it creates – according to a Commission poll. My own view is that this all depends on the policies of those who lead the Union.

● Postponement of the January 1999 deadline for Emu is highly probable for technical reasons alone. This is not important so long as it means months rather than years. For example, EU heads of government may find they need to wait longer than the beginning of 1998 for worthwhile figures on the preceding year on which to base, or even rationalise, a decision on which countries qualify for monetary union. Moreover there will have to be a trial run of machinery such as the inter-bank settlement system, on which snags are possible the first time round.

The European Monetary System did not start at the beginning of 1979 as planned, but was delayed into the spring of that year. Even the more optimistic unofficial publications tend to have phrases like "Emu 2000" in their titles.

● A postponement for several years would be a much bigger blow. Some central bankers make no secret that this is what they would like to happen; but the decision does not rest with them. The statesmen most keen on Emu will be keen to see it completed before they have departed and momentum lost.

> The so-called convergence criteria for joining the monetary union are not hard and fast numbers as many think

Past experience suggests the EU members will not give up easily on Emu. The Werner plan for monetary union was published in 1970. Lord Jenkins proposed a monetary union in 1977 when he was president of the Commission. The currency snake was established among a few core countries in the 1972 and succeeded by the EMS.

● The so-called convergence criteria for joining the monetary union are not hard and fast numbers as many think. The requirements for a maximum government deficit of 3 per cent of gross domestic product and public debt of 60 per cent of GDP are not in the Maastricht treaty, but in a protocol as guidelines. Yet many commentators treat the matter like a lottery so that a country, which by good luck or cosmetic manipulation achieves a deficit of 2.9 per cent of GDP in 1997 will be eligible, while a country which achieves 3.1 per cent will be barred.

Both the Commission and the European Monetary Institute (the forerunner of the European central bank) are adamant that what matters is the structural position of a country's finances. They will worry much more about whether a country is moving credibly towards a sustainable position than the precise figures for a particular year.

● A bargain is surely possible under which more explicit allowance would be made for business cycle factors – perhaps with the targets for a normal year being tightened up. German officials are now more receptive to this point in view of the overshoot of their 1995 deficit.

This would not weaken the convergence criteria, but involve a more difficult assessment of the country's budgetary system and the credibility of undertakings given by the politicians – including the opposition. One basis for negotiation is the stability pact suggested by Mr Theo Waigel, the German finance minister, under which countries would normally aim at 1 per cent deficits.

The Commission is trying to work out the details of a stability pact to submit to ministers. Another element might involve the so-called golden rule under which budget deficits should be limited to capital spending. This could be a tougher regime than the headline deficit limits in the convergence criteria, since capital expenditure in some leading countries is less than 3 per cent of the deficit, according to Commission estimates; and even in the exceptional case of France it is only slightly higher.

● A formula is needed to minimise speculation ahead of the fixing of the conversion rates into Euros. The rates will be fixed finally and irrevocably when the decision on participating countries is made in 1998 – and there could be speculation in the currency markets on "one last realignment" before Emu. One option under discussion by EU officials is to base the final conversion rates on the average of market rates in 1996, 1997 and early 1998.

● There is unlikely to be a new narrow band Exchange Rate Mechanism – or any other temporary peg – if only because it does not command credibility when the financial going gets rough. But governments that do not join monetary union in 1999 are likely to be required to demonstrate a record of exchange rate stability against the Euro before subsequently joining.

The UK is thus unlikely to get a sympathetic hearing on its plea for nothing to be done that would make later membership more difficult. The whole record of Britain's dealings with the Union is first to stay out of each stage and then to complain about the rules when it tries to join later.

FINANCIAL TIMES
Monday January 29 1996

China shows off elite HK force

By Tony Walker in Beijing

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The unveiling of the "Red First Regiment" is a clear sign that Beijing is intent on accelerating preparations for the takeover on July 1 1997.

The special detachment was shown on Chinese television taking part in air, sea and land exercises following the inaugural session in Beijing at the weekend of the Preparatory Committee on Hong Kong's transition to Chinese rule.

President Jiang Zemin told the committee, whose 150 members are drawn from both the British colony and the mainland, that the return of Hong Kong was a "first step" towards reunification with Taiwan. It would also serve as an example for the return of Macao which reverts to Chinese rule in 1999.

Mr Jiang addressed delegates to the committee in the Great Hall of the People as the countdown clock in Beijing's Tiananmen square showed there were 522 days to go before the Chinese takeover of Hong Kong.

China's decision to publicise plans for its military involvement in the takeover is certain to attract mixed feelings in the colony. Many people fear heavy-handed Chinese security.

The official Xinhua news agency quoted Major General Liu Zhenwu, commander of the "Red First Regiment", as saying his forces would enter Hong Kong at zero hour on July 1 1997. But he also sought to reassure the people of Hong Kong that his troops would act with restraint.

"The military forces will not interfere in the local affairs of the Hong Kong Special Administrative Region," Gen Liu said.

"The government of the Hong Kong SAR may, when necessary, ask the central people's government for assistance from the forces in maintenance of public order and disaster relief."

Mr Liu said worries that his troops would engage in production and business, as the PLA is encouraged to do in China, were "completely unnecessary" as they would be managed in a "closed-door" fashion and funded directly by Beijing.

Soldiers have been given training befitting deployment in a cosmopolitan city with an historically English accent. "Of the 200 officers and men in a communications station, 80 per cent can speak English and 60 per cent are capable of operating computers," Xinhua said.

The preparatory committee, which will oversee the transition, established six panels charged with such tasks as helping to select the first chief executive of the Hong Kong Special Administrative Region.

Jiang steals Mao's clothes, Page 3

Bidder claims lead in battle to win UK rail link contract

By Charles Batchelor in London

The battle of nerves over the award of a £3bn ($4.6bn) contract to build the Channel tunnel's UK high-speed rail link entered a new phase yesterday, when supporters of the London & Continental Railways bid claimed the consortium was in exclusive negotiations with the British government.

A decision on the 68-mile line, which will cut 30 minutes off journey times and link the Channel tunnel entrance with St Pancras station in north London, is expected within two weeks. The winning bidder will obtain a 999-year concession to build the line and provide train services.

The L&C consortium consists of Mr Richard Branson's Virgin Group, the National Express coach company, civil engineers Ove Arup and Bechtel, the US construction group.

But the claim that L&C was in exclusive talks was denied by supporters of the rival consortium, Eurorail, who said the Department of Transport was continuing its negotiations with both bidders. The department said a final decision had not been taken. The leading partners in the Eurorail consortium are two construction companies, Trafalgar House and BICC.

Recent experience of bids for part of the UK's privatised rail network has shown that companies that appear to be gaining a lead in negotiations can stumble at the last minute over issues such as raising the finance.

Four consortia originally bid to build the high-speed link but two were eliminated and final offers were made by L&C and Eurorail before Christmas. Negotiations centre on the cost of the project and the size of the UK government's contribution.

The government is offering the successful bidder the ownership of both European Passenger Services, which runs the Eurostar trains between London, Brussels and Paris, and Union Railways, which has designed and promoted the rail-link project.

Concern has arisen over the financial performance of Eurostar services, which carried 3m passengers last year, less than a quarter of the original estimate. Eurostar revenues will help finance construction work in the early stages and the winning bidder is expected to set a high priority on marketing the service and increasing passenger numbers.

The expertise of Virgin and National Express in providing passenger services, in the air and on coaches respectively, is claimed by supporters of the L&C consortium to give them the edge in the bidding. The Treasury in particular is believed to be keen to hand over control of Eurostar services to stop the losses being suffered by the public purse.

In parallel with the bid talks, a Commons select committee has been hearing objections from local residents and other interested parties. It is expected to make its report in February. The parliamentary bill authorising work is expected to become law in early 1997 with construction work likely to take up to a further six years.

Virgin loses top slot, Page 10
Eurotunnel committee, Page 21

France asks Brussels for go-ahead on urban policy

By Andrew Jack in Paris

French ministers will travel to Brussels this week to try to persuade the European Commission to approve a new urban policy despite concerns that it may violate EU competition rules.

Mr Jean-Claude Gaudin, minister for local development, urban affairs and integration, and Mr Eric Raoult, minister for cities, are due to meet Mr Karel Van Miert, competition commissioner, on Thursday to push the case for a series of proposed "zones franches" or tax-free zones.

Under the urban initiative, unveiled by Mr Alain Juppé, the prime minister, earlier this month, the French government will create up to 30 zones in France's most depressed urban areas by this summer in an effort to boost economic growth and revitalise areas suffering from growing social and economic problems and violence.

The plan calls for tax and charge waivers for companies already in or attracted to the zones worth FFr1.2bn ($240m) a year for five years. But this risks clashing with EU attempts to create a "level playing field" for competition between member states.

In an interview with the FT, Mr Raoult said he was "optimistic" about the prospects of Brussels accepting the policy, even if the Commission demanded modifications. He was willing to reduce the number of zones to 20 if Brussels demanded, and said the criteria could be modified to meet EU officials' requirements.

Mr Raoult said the government's arguments in Brussels would include the fact that the zones were designed to appeal to small business and commerce rather than big companies; that similar zones already existed in other countries including the UK and Ireland; and that they would be limited in number, duration and geographical size.

Conciliatory line, Page 2

Germany

Continued from Page 1

for the agricultural and forestry sector, cut tax allowances for those eligible for car mileage allowances or for working on public holidays, cut housing and education allowances and reduce the depreciation costs that small companies can write off against tax.

In addition, Mr Kohl's party will today hold talks with the liberal Free Democrats, its junior coalition partner, to seek agreement on reducing the controversial solidarity tax which was reintroduced last year to pay for the soaring costs of reunification.

Agreement is crucial since it would give the coalition, and especially the FDP which has lost 12 consecutive state elections and consistently opposed the tax, a boost before three state elections due in March.

Yeltsin memo urges sackings

Continued from Page 1

programme and sabre-rattling nationalism of his political opponents.

Observers have interpreted these changes as a sign that Mr Yeltsin is determined to hold on to political power at any cost and is already trying to make his administration more palatable to the electorate. Mr Yeltsin has not yet declared his candidacy in the June poll, but looks increasingly likely to do so.

In addition to the proposals it outlines, the memo offers a valuable insight into political thinking in the Kremlin. Contrary to the opinion of some western observers, who have argued that the strong Communist showing in December was merely a protest vote which did not reflect a serious change in the views of the electorate, Mr Yeltsin's team thinks Russian society has moved to the left.

The report contends that the main explanation for the December vote is "the strong shift of the electorate to the left, primarily because of the high social cost of reforms and the mistakes in economic policies".

The memo also challenges the conventional wisdom in the west that Mr Yeltsin's firm grip on the apparatus of government in Russia is likely to give him a major advantage in the presidential contest.

Instead, the internal report contends that a large number of civil servants across the country sympathise with opposition parties and openly supported them in December. "Today at the mid-levels of regional government there are a large number of hidden and open supporters of the opposition," the report argues.

THE LEX COLUMN

Europe's money troubles

Europe's grandees may be fretting over whether monetary union can be delivered on time, but they have – so far – failed to do much to unnerve the markets. Although the spread between German and French bond yields has widened slightly, it remains strikingly narrow compared with the levels reached, for instance, during last year's French strikes. In short, as far as the markets are concerned, Emu is essentially a political project. And it is political pressure, not failure to meet the Maastricht convergence criteria, that is most likely to derail it.

This view makes sense – as far as it goes. Although the criteria themselves look strict, the treaty hedges them with plenty of woolly words. If Europe's politicians really want to force monetary union through in 1999, they would not have to rewrite the treaty to do so.

This does not, though, make their task any easier. Emu only stands a chance if some meeting ground can be found between German and French public opinion. And slower growth will make this a much more difficult trick to pull off. Whatever the technicalities of the treaty, the Germans will not put up with too blatant a circumvention of the criteria. And the straitjacket needed to bring France's performance within that may well prove impossible to deliver, politically.

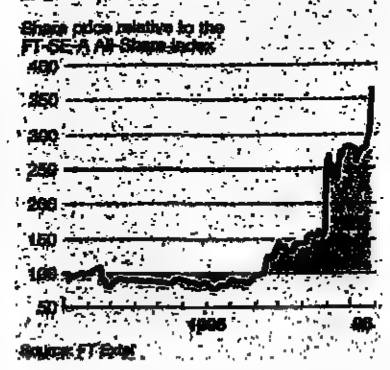
Nonetheless, the politicians are unlikely to throw in the towel now. They are much more likely to press on – in the knowledge that, up to the end of 1997, they can delay the project if necessary. The markets are in for a long period of uncertainty.

Shareholder value

Last week's decision by Daimler-Benz's Mr Jürgen Schrempp to pull the plug on Fokker is the most dramatic instance of a continental European group embracing shareholder value. But it is not the only one. Several companies that frittered away shareholders' funds in the 1980s and early 1990s are changing their tune. France's Alcatel Alsthom, which grew bloated under Mr Pierre Suard, is being subjected to Mr Serge Tchuruk's more stringent regime. And Philips's Mr Jan Timmer is more hard-nosed than his predecessor.

There are several reasons for the change. First, companies increasingly have to answer to foreign shareholders; and though these as yet rarely take an activist approach, they certainly dump stock in companies that

British Biotech
Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

ignore investors' interests. Second, groups like Alcatel that could once coast along as national champions have to behave commercially now they face European and global competition. Third, a generation of leaders exposed to Anglo-Saxon business values – Mr Schrempp, Mr Timmer and Mr Tchuruk all fit the description – is taking over.

There is, of course, a long way to go. In Italy, for example, shareholder value has barely made an impact. Olivetti's Mr Carlo De Benedetti espouses the doctrine; but his latest profit warning, hard on the heels of a massive rights issue, underlines the wide gap between theory and practice. Elsewhere, the fact that few managers own equity means the interests of investors and executives are still not aligned. Radical measures to boost shareholder value, such as demergers and share buy-backs, are rare.

UK biotechnology

Britain's biotechnology sector has started the year in the same state of hyperactivity in which it finished the old. If anything, performance in 1996 has been even more spectacular than in 1995, when most share prices doubled. So far this January, British Biotech is up another 80 per cent and now valued at over £1bn; Celltech and Scotia have each gained more than a tenth; and Cortecs, which markets a bacterial testing kit, has seen its shares rise by two-thirds.

Since these companies are still loss-making, they cannot be measured by conventional yardsticks. The best alternative is to value each drug in development on its potential peak sales and add this up to reach a net present value for the company. As an example, British Biotech's anti-cancer drug Marimastat could achieve sales of $1bn in 2003 with a margin of 40 per cent. Assuming a 50 per cent chance of it reaching the market and a 10 per cent discount rate, this gives a value of £7.50 a share for this compound. In itself this may be reasonable, even if a 50 per cent chance of success is optimistic for a drug only half-way through clinical trials. What is more worrying is that Marimastat is by far the most important of British Biotech's projects, but now accounts for less than a third of the current £23 share price.

This suggests investors are not only measuring the existing compounds but ascribing considerable value to a pipeline of follow-up products which have not yet emerged. This makes the sector look very fully valued.

Ladbroke

There are notable similarities between Ladbroke and Forte. Both own hotel chains, both have delivered poor investment returns, and new managements at both have failed to deliver much recovery. No wonder Ladbroke is deemed a potential bid target. Mr Peter George, Ladbroke's chief executive, has been slowly cleaning up the mess left by his predecessors. But his hands have been tied by a stretched balance sheet. And he faces two big external constraints.

First, the National Lottery has hit the gaming industry. There is now huge scope for consolidation in betting, and the government would be in a weak position to oppose it. But Ladbroke is poorly placed to do deals. Second, Ladbroke can do little with its Hilton International hotel business, because it is blocked out of the US by Hilton Hotels Corp. And Mr George has failed to secure a deal with HHC's indecisive boss, Mr Barron Hilton.

An obvious solution would be a merger with Bass. Combining two betting businesses would create a more profitable portfolio, and it should take only a few disposals to calm the Office of Fair Trading. But the real attraction would be the combination of Hilton and Holiday Inns, providing two complimentary brands. This could also put pressure on HHC to sell its hotels.

Of course, friendly mergers are rare in the UK, and Bass is not famed for hostility. But if Bass does not grasp the nettle, Ladbroke may attract more opportunistic eyes. Ladbroke shares look expensive in earnings terms, but they offer a substantial discount to break-up value.

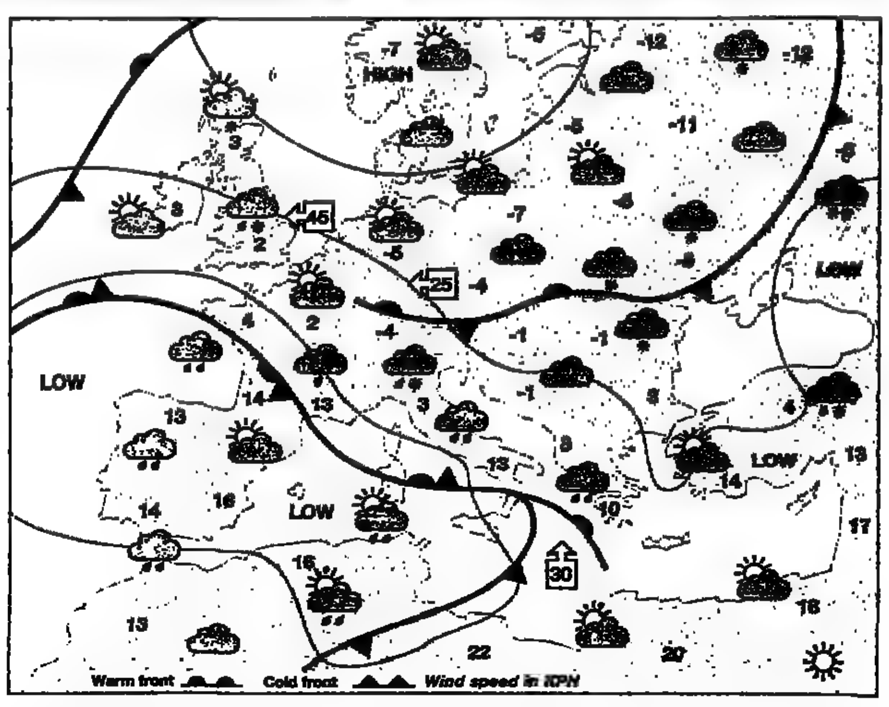
FT WEATHER GUIDE

Europe today

High pressure over southern Scandinavia will continue to bring cold air into northern parts of the continent. Afternoon temperatures in the Benelux and Germany will be mainly below freezing but northern areas will be rather sunny. Easterly winds blowing across the continent and the North Sea will bring more cloud to the UK. The east coast will have patches of snow, but there will be sunny spells elsewhere. Northern France will also have some sun. Southern France, Portugal and parts of Spain will have cloud and rainy periods. Cloud and rain over Italy will move towards the Balkan states. Greece will have showers. Cloud will dominate most of eastern Europe and Russia.

Five-day forecast

Northern and north-western Europe will stay mainly dry with sunny spells. The UK may have patches of rain. Much of Russia will have cloud and cold air will still be directed towards the northern part of the continent. Italy and south-eastern Europe will have cloud and rain during the coming days but clearing from the west will allow it to turn dry later.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius															
Abu Dhabi	sun	24	Beijing	sun	2	Caracas	fair	29	Faro	shower	15	Madrid	shower	9	Rangoon	sun	34
Accra	cloudy	31	Belfast	drzzl	5	Cardiff	fair	3	Frankfurt	cloudy	-4	Majorca	shower	15	Reykjavik	cloudy	1
Algiers	shower	17	Belgrade	cloudy	0	Casablanca	rain	16	Geneva	cloudy	3	Malta	fair	17	Rio	fair	35
Amsterdam	fair	-3	Berlin	fair	-5	Chicago	fair	-3	Gibraltar	shower	14	Manchester	cloudy	3	Rome	rain	14
Athens	shower	12	Bermuda	fair	19	Cologne	fair	-2	Glasgow	fair	2	Manila	cloudy	30	S. Frsco	rain	13
Atlanta	fair	12	Bogota	shower	19	Dakar	fair	23	Hamburg	sun	-3	Melbourne	shower	21	Seoul	fair	0
B. Aires	fair	32	Bombay	sun	31	Dallas	sun	16	Helsinki	cloudy	-6	Mexico City	sun	22	Singapore	thund	31
B.ham	drzzl	1	Brussels	fair	-2	Delhi	sun	23	Hong Kong	cloudy	16	Miami	fair	26	Stockholm	fair	-3
Bangkok	fair	34	Budapest	sleet	-1	Dubai	sun	25	Honolulu	fair	28	Milan	drzzl	5	Strasbourg	fair	-2
Barcelona	cloudy	13	C.hagen	fair	-1	Dublin	drzzl	4	Istanbul	cloudy	7	Montreal	snow	-5	Sydney	fair	27
			Cairo	sun	21	Dubrovnik	rain	11	Jakarta	shower	30	Moscow	cloudy	-9	Tangier	rain	14
			Cape Town	sun	29	Edinburgh	cloudy	3	Jersey	cloudy	3	Munich	cloudy	-5	Tel Aviv	shower	18
									Karachi	sun	27	Nairobi	fair	27	Tokyo	fair	9
									Kuwait	fair	19	Naples	rain	15	Toronto	snow	-2
									L. Angeles	shower	18	Nassau	fair	26	Vancouver	cloudy	-2
									Las Palmas	fair	23	New York	fair	6	Venice	cloudy	7
									Lima	cloudy	26	Nice	rain	13	Vienna	cloudy	-4
									Lisbon	shower	13	Nicosia	shower	12	Warsaw	cloudy	-5
									London	drzzl	4	Oslo	sun	-5	Washington	fair	10
									Lux.bourg	fair	-4	Paris	cloudy	2	Wellington	fair	19
									Lyon	drzzl	9	Perth	shower	24	Winnipeg	sun	-24
									Madeira	cloudy	18	Prague	cloudy	-6	Zurich	cloudy	-1

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FINANCIAL TIMES
Monday January 29 1996

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By Tony Walker in Beijing

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Soldiers have been given training befitting deployment in a cosmopolitan city with an historically English accent. "Of the 200 officers and men in a communications station, 80 per cent can speak English and 60 per cent are capable of operating computers," Xinhua said.

The preparatory committee, which will oversee the transition, established six panels charged with such tasks as helping to select the first chief executive of the Hong Kong Special Administrative Region.

Jiang steals Mao's clothes, Page 3

Bidder claims lead in battle to win UK rail link contract

By Charles Batchelor in London

The battle of nerves over the award of a £3bn ($4.6bn) contract to build the Channel tunnel's UK high-speed rail link entered a new phase yesterday, when supporters of the London & Continental Railways bid claimed the consortium was in exclusive negotiations with the British government.

A decision on the 68-mile line, which will cut 30 minutes off journey times and link the Channel tunnel entrance with St Pancras station in north London, is expected within two weeks. The winning bidder will obtain a 999-year concession to build the line and provide train services.

The L&C consortium consists of Mr Richard Branson's Virgin Group, the National Express coach company, civil engineers Ove Arup and Bechtel, the US construction group.

But the claim that L&C was in exclusive talks was denied by supporters of the rival consortium, Eurorail, who said the Department of Transport was continuing its negotiations with both bidders. The department said a final decision had not been taken. The leading partners in the Eurorail consortium are two construction companies, Trafalgar House and BICC.

Recent experience of bids for part of the UK's privatised rail network has shown that companies that appear to be gaining a lead in negotiations can stumble at the last minute over issues such as raising the finance.

Four consortia originally bid to build the high-speed link but two were eliminated and final offers were made by L&C and Eurorail before Christmas. Negotiations centre on the cost of the project and the size of the UK government's contribution.

The government is offering the successful bidder the ownership of both European Passenger Services, which runs the Eurostar trains between London, Brussels and Paris, and Union Railways, which has designed and promoted the rail-link project.

Concern has arisen over the financial performance of Eurostar services, which carried 3m passengers last year, less than a quarter of the original estimate. Eurostar revenues will help finance construction work in the early stages and the winning bidder is expected to set a high priority on marketing the service and increasing passenger numbers.

The expertise of Virgin and National Express in providing passenger services, in the air and on coaches respectively, is claimed by supporters of the L&C consortium to give them the edge in the bidding. The Treasury in particular is believed to be keen to hand over control of Eurostar services to stop the losses being suffered by the public purse.

In parallel with the bid talks, a Commons select committee has been hearing objections from local residents and other interested parties. It is expected to make its report in February. The parliamentary bill authorising work is expected to become law in early 1997 with construction work likely to take up to a further six years.

Virgin loses top slot, Page 10
Eurotunnel committee, Page 21

France asks Brussels for go-ahead on urban policy

By Andrew Jack in Paris

French ministers will travel to Brussels this week to try to persuade the European Commission to approve a new urban policy despite concerns that it may violate EU competition rules.

Mr Jean-Claude Gaudin, minister for local development, urban affairs and integration, and Mr Eric Raoult, minister for cities, are due to meet Mr Karel Van Miert, competition commissioner, on Thursday to push the case for a series of proposed "zones franches" or tax-free zones.

Under the urban initiative, unveiled by Mr Alain Juppé, the prime minister, earlier this month, the French government will create up to 30 zones in France's most depressed urban areas by this summer in an effort to boost economic growth and revitalise areas suffering from growing social and economic problems and violence.

The plan calls for tax and charge waivers for companies already in or attracted to the zones worth FFr1.2bn ($240m) a year for five years. But this risks clashing with EU attempts to create a "level playing field" for competition between member states.

In an interview with the FT, Mr Raoult said he was "optimistic" about the prospects of Brussels accepting the policy, even if the Commission demanded modifications. He was willing to reduce the number of zones to 20 if Brussels demanded, and said the criteria could be modified to meet EU officials' requirements.

Mr Raoult said the government's arguments in Brussels would include the fact that the zones were designed to appeal to small business and commerce rather than big companies; that similar zones already existed in other countries including the UK and Ireland; and that they would be limited in number, duration and geographical size.

Conciliatory line, Page 2

Germany

Continued from Page 1

for the agricultural and forestry sector, cut tax allowances for those eligible for car mileage allowances or for working on public holidays, cut housing and education allowances and reduce the depreciation costs that small companies can write off against tax.

In addition, Mr Kohl's party will today hold talks with the liberal Free Democrats, its junior coalition partner, to seek agreement on reducing the controversial solidarity tax which was reintroduced last year to pay for the soaring costs of reunification.

Agreement is crucial since it would give the coalition, and especially the FDP which has lost 12 consecutive state elections and consistently opposed the tax, a boost before three state elections due in March.

Yeltsin memo urges sackings

Continued from Page 1

programme and sabre-rattling nationalism of his political opponents.

Observers have interpreted these changes as a sign that Mr Yeltsin is determined to hold on to political power at any cost and is already trying to make his administration more palatable to the electorate. Mr Yeltsin has not yet declared his candidacy in the June poll, but looks increasingly likely to do so.

In addition to the proposals it outlines, the memo offers a valuable insight into political thinking in the Kremlin. Contrary to the opinion of some western observers, who have argued that the strong Communist showing in December was merely a protest vote which did not reflect a serious change in the views of the electorate, Mr Yeltsin's team thinks Russian society has moved to the left.

The report contends that the main explanation for the December vote is "the strong shift of the electorate to the left, primarily because of the high social cost of reforms and the mistakes in economic policies".

The memo also challenges the conventional wisdom in the west that Mr Yeltsin's firm grip on the apparatus of government in Russia is likely to give him a major advantage in the presidential contest.

Instead, the internal report contends that a large number of civil servants across the country sympathise with opposition parties and openly supported them in December. "Today at the mid-levels of regional government there are a large number of hidden and open supporters of the opposition," the report argues.

THE LEX COLUMN

Europe's money troubles

Europe's grandees may be fretting over whether monetary union can be delivered on time, but they have – so far – failed to do much to unnerve the markets. Although the spread between German and French bond yields has widened slightly, it remains strikingly narrow compared with the levels reached, for instance, during last year's French strikes. In short, as far as the markets are concerned, Emu is essentially a political project. And it is political pressure, not failure to meet the Maastricht convergence criteria, that is most likely to derail it.

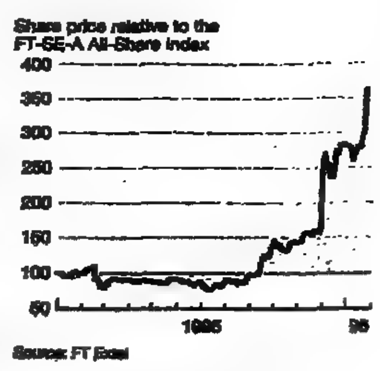
This view makes sense – as far as it goes. Although the criteria themselves look strict, the treaty hedges them with plenty of woolly words. If Europe's politicians really want to force monetary union through in 1999, they would not have to rewrite the treaty to do so.

This does not, though, make their task any easier. Emu only stands a chance if some meeting ground can be found between German and French public opinion. And slower growth will make this a much more difficult trick to pull off. Whatever the technicalities of the treaty, the Germans will not put up with too blatant a circumvention of the criteria. And the straitjacket needed to bring France's performance within that may well prove impossible to deliver, politically.

Nonetheless, the politicians are unlikely to throw in the towel now. They are much more likely to press on – in the knowledge that, up to the end of 1997, they can delay the project if necessary. The markets are in for a long period of uncertainty.

British Biotech

Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

Shareholder value

Last week's decision by Daimler-Benz's Mr Jürgen Schrempp to pull the plug on Fokker is the most dramatic instance of a continental European group embracing shareholder value. But it is not the only one. Several companies that frittered away shareholders' funds in the 1980s and early 1990s are changing their tune. France's Alcatel Alsthom, which grew bloated under Mr Pierre Suard, is being subjected to Mr Serge Tchuruk's more stringent regime. And Philips's Mr Jan Timmer is more hard-nosed than his predecessor.

There are several reasons for the change. First, companies increasingly have to answer to foreign shareholders; and though these as yet rarely take an activist approach, they certainly dump stock in companies that ignore investors' interests. Second, groups like Alcatel that could once coast along as national champions have to behave commercially now they face European and global competition. Third, a generation of leaders exposed to Anglo-Saxon business values – Mr Schrempp, Mr Timmer and Mr Tchuruk all fit the description – is taking over.

There is, of course, a long way to go. In Italy, for example, shareholder value has barely made an impact. Olivetti's Mr Carlo De Benedetti espouses the doctrine; but his latest profit warning, hard on the heels of a massive rights issue, underlines the wide gap between theory and practice. Elsewhere, the fact that few managers own equity means the interests of investors and executives are still not aligned. Radical measures to boost shareholder value, such as demergers and share buy-backs, are rare.

UK biotechnology

Britain's biotechnology sector has started the year in the same state of hyperactivity in which it finished the old. If anything, performance in 1996 has been even more spectacular than in 1995, when most share prices doubled. So far this January, British Biotech is up another 30 per cent and now valued at over £1bn; Celltech and Scotia have each gained more than a tenth; and Cortecs, which markets a bacterial testing kit, has seen its shares rise by two-thirds.

Since these companies are still loss-making, they cannot be measured by conventional yardsticks. The best alternative is to value each drug in development on its potential peak sales and add this up to reach a net present value for the company. As an example, British Biotech's anti-cancer drug Marimastat could achieve sales of $1bn in 2003 with a margin of 40 per cent. Assuming a 50 per cent chance of it reaching the market and a 10 per cent discount rate, this gives a value of £7.50 a share for this compound. In itself this may be reasonable, even if a 50 per cent chance of success is optimistic for a drug only half-way through clinical trials. What is more worrying is that Marimastat is by far the most important of British Biotech's projects, but now accounts for less than a third of the current £23 share price.

This suggests investors are not only measuring the existing compounds but ascribing considerable value to a pipeline of follow-up products which have not yet emerged. This makes the sector look very fully valued.

Ladbroke

There are notable similarities between Ladbroke and Forte. Both own hotel chains, both have delivered poor investment returns, and new managements at both have failed to deliver much recovery. No wonder Ladbroke is deemed a potential bid target. Mr Peter George, Ladbroke's chief executive, has been slowly cleaning up the mess left by his predecessors. But his hands have been tied by a stretched balance sheet. And he faces two big external constraints.

First, the National Lottery has hit the gaming industry. There is now huge scope for consolidation in betting, and the government would be in a weak position to oppose it. But Ladbroke is poorly placed to do deals. Second, Ladbroke can do little with its Hilton International hotel business, because it is blocked out of the US by Hilton Hotels Corp. And Mr George has failed to secure a deal with HHC's indecisive boss, Mr Barron Hilton.

An obvious solution would be a merger with Bass. Combining two betting businesses would create a more profitable portfolio, and it should take only a few disposals to calm the Office of Fair Trading. But the real attraction would be the combination of Hilton and Holiday Inns, providing two complimentary brands. This could also put pressure on HHC to sell its hotels.

Of course, friendly mergers are rare in the UK, and Bass is not famed for hostility. But if Bass does not grasp the nettle, Ladbroke may attract more opportunistic eyes. Ladbroke shares look expensive in earnings terms, but they offer a substantial discount to break-up value.

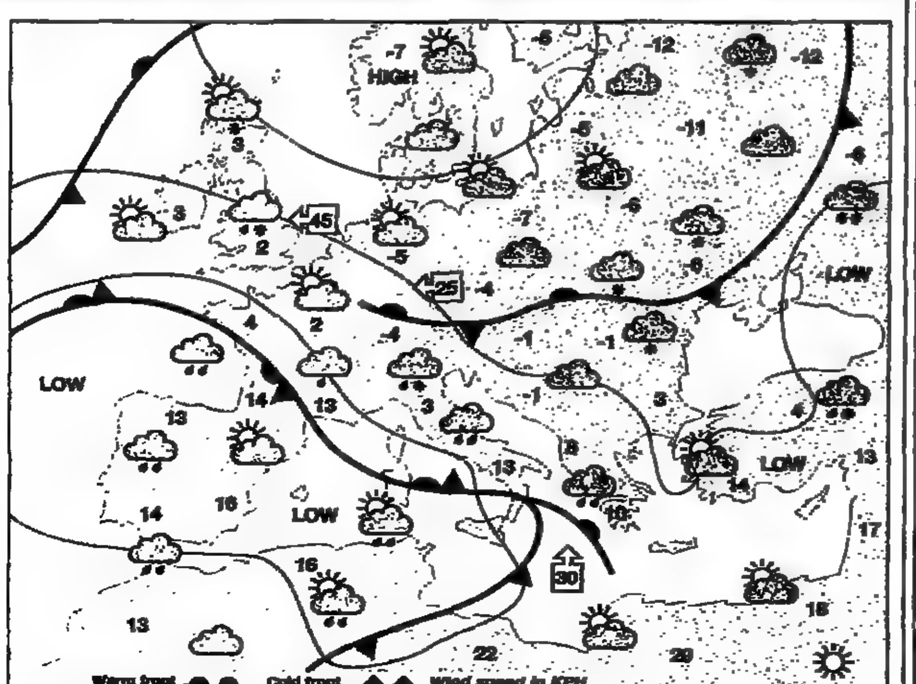
FT WEATHER GUIDE

Europe today

High pressure over southern Scandinavia will continue to bring cold air into northern parts of the continent. Afternoon temperatures in the Benelux and Germany will be mainly below freezing but northern areas will be rather sunny. Easterly winds blowing across the continent and the North Sea will bring more cloud to the UK. The east coast will have patches of snow, but there will be sunny spells elsewhere. Northern France will also have some sun. Southern France, Portugal and parts of Spain will have cloud and rainy periods. Cloud and rain over Italy will move towards the Balkan states. Greece will have showers. Cloud will dominate most of eastern Europe and Russia.

Five-day forecast

Northern and north-western Europe will stay mainly dry with sunny spells. The UK may have patches of rain. Much of Russia will have cloud and cold air will still be directed towards the northern part of the continent. Italy and south-eastern Europe will have cloud and rain during the coming days but clearing from the west will allow it to turn dry later.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius																
Abu Dhabi	sun	24	Beijing	sun	2	Caracas	fair	29	Faro	shower	15	Madrid	shower	9	Rangoon	sun	34
Accra	cloudy	31	Belfast	drzzl	3	Cardiff	fair	3	Frankfurt	cloudy	-4	Majorca	shower	15	Reykjavik	cloudy	1
Algiers	shower	17	Belgrade	cloudy	0	Casablanca	rain	16	Geneva	cloudy	3	Malta	fair	17	Rio	fair	35
Amsterdam	fair	-3	Berlin	fair	-5	Chicago	fair	-3	Gibraltar	shower	14	Manchester	cloudy	3	Rome	rain	14
Athens	shower	12	Bermuda	fair	19	Cologne	fair	-2	Glasgow	fair	2	Manila	cloudy	30	S. Frsco	rain	13
Atlanta	fair	12	Bogota	shower	19	Dakar	fair	25	Hamburg	sun	-3	Melbourne	shower	21	Seoul	fair	0
B. Aires	fair	32	Bombay	sun	31	Dallas	sun	18	Helsinki	cloudy	-6	Mexico City	sun	22	Singapore	thund	31
B.ham	drzzl	1	Brussels	fair	-2	Delhi	sun	23	Hong Kong	cloudy	18	Miami	fair	26	Stockholm	fair	-3
Bangkok	fair	34	Budapest	sleet	-1	Dubai	sun	25	Honolulu	fair	28	Milan	drzzl	6	Strasbourg	fair	-2
Barcelona	cloudy	13	C.hagen	fair	-1	Dublin	drzzl	4	Istanbul	cloudy	7	Montreal	snow	-5	Sydney	fair	27
			Cairo	sun	21	Dubrovnik	rain	11	Jakarta	shower	30	Moscow	cloudy	-9	Tangier	rain	14
			Cape Town	sun	29	Edinburgh	cloudy	3	Jersey	cloudy	3	Munich	cloudy	-5	Tel Aviv	shower	18
									Karachi	sun	27	Nairobi	fair	27	Tokyo	fair	9
									Kuwait	fair	19	Naples	rain	15	Toronto	snow	-2
									L. Angeles	shower	18	Nassau	fair	26	Vancouver	cloudy	-2
									Las Palmas	fair	23	New York	fair	6	Venice	cloudy	7
									Lima	cloudy	26	Nice	rain	13	Vienna	cloudy	-4
									Lisbon	shower	13	Nicosia	shower	12	Warsaw	cloudy	-9
									London	drzzl	4	Oslo	sun	-5	Washington	fair	10
									Lux.bourg	fair	-4	Paris	cloudy	2	Wellington	fair	19
									Lyon	drzzl	9	Perth	shower	24	Winnipeg	sun	-24
									Madeira	cloudy	16	Prague	cloudy	-5	Zurich	cloudy	-1

FINANCIAL TIMES
COMPANIES & MARKETS

Monday January 29 1996

MARKETS THIS WEEK

JOHN PLENDER:
GLOBAL INVESTOR
Mature UK pension funds are not managing their asset mixes quite as expected. Instead of reducing their exposure to the more volatile and illiquid asset categories in favour of bonds, figures showing changes in the aggregate pension fund portfolio last year show that exposure to domestic and overseas equities increased. Page 24

ROBERT CHOTE:
ECONOMICS NOTEBOOK
What sort of relationship can we expect between "the ins and the outs" – those countries which join the single currency if European monetary union takes place on schedule in 1999, and those which do not? The ins cannot simply set sail and forget about the outs for good. Page 24

BONDS:
The battered bonds of Crédit Foncier de France won some respite after a lifeline was cast to support the troubled specialist property institution. While a reversal of fortunes is not imminent, many observers see a ray of light on the horizon. Page 26

EQUITIES:
The prospect of cuts in international interest rates has helped drive global markets, including London, sharply higher in recent weeks. In the US, the betting is about even as to whether the Federal Reserve will ease monetary policy. Page 27

EMERGING MARKETS:
The Lisbon market "gained more in the first week of 1996 than it lost during the whole of 1995", according to one analyst, heralding what brokers hope will be a brave new year for Portuguese equities. Page 25

CURRENCIES:
Currencies were buffeted last week by the suspicion that some European countries could fail to qualify for the proposed single currency, or that monetary union might be delayed. Page 25

COMMODITIES:
The market needs all the lead it can get this year, with supplies of the metal, used mainly for batteries, likely to be tight. Page 24

INTERNATIONAL COMPANIES:
Banco Santander, the leading Spanish bank group, had an "excellent" 1995 and faced "frankly optimistic" prospects this year, said Mr Emilio Botín, chairman. Page 22

UK COMPANIES:
The flotation of British Bus, the third largest bus operator in the UK, is increasingly unlikely to go ahead this year because of a Serious Fraud Office inquiry involving its chairman. "We are becalmed at the moment," said Mr Stephen Bayfield, director of corporate development. Page 22

STATISTICS

RPR poised for further job cuts

French-controlled pharmaceuticals group moves to cut costs and reduce $2.5bn debts from Fisons acquisition

By Daniel Green in London

Rhône-Poulenc Rorer, the French-controlled US drugs company, is set today to announce job cuts and cost savings arising from its acquisition in October of UK rival Fisons. The annual savings are likely to be more than $100m.

The details of further job cuts follow last week's announcement that 140 out of 470 UK sales and marketing jobs would be cut.

The cost cutting is part of a strategy to reduce the $2.5bn debt RPR has accumulated with the acquisition. The plan is likely to involve disposals.

Annual results for 1995 will also be published today. They are likely to show that the cost of integrating Fisons has pushed earnings per share below $3.15, compared with a figure of about $3.25 excluding the Fisons deal.

The cost cutting is also designed to offset the $84m cost of increasing RPR's stake last December in Applied Immune Sciences, a US biotechnology company, from 47 per cent to 100 per cent.

The results will be a foretaste of figures due on January 31 from Rhône-Poulenc, the French chemicals company which owns a controlling stake in RPR. Earlier this month, Rhône-Poulenc issued a profits warning, citing costs arising from acquisitions as a factor.

RPR wants today to try to clarify its strategy, which has changed since the 1990 merger of Rorer with the pharmaceuticals side of Rhône-Poulenc.

At that time, RPR said it wanted to be one of the world's five biggest drugs groups. Today, it still ranks outside the top 10, partly because of the mergers and acquisitions that have reshaped the pharmaceuticals industry in the past two years.

RPR's new target is likely to be "leadership" in five medical areas: cancer, asthma, heart drugs, antibiotics and blood proteins. The last of these has been put into a joint venture with Hoechst of Germany.

As part of this strategy, it wants to reduce the number of drugs it sells. RPR is unusual in that it has large numbers of drugs with small total sales. In 1994, 80 per cent of sales came from more than 75 products; rivals rely on a handful of products, a balance which RPR regards as inherently more profitable.

The company has launched or won regulatory approval for several new products in recent months. They include Taxotere, a cancer drug, and Rilutek, for the hitherto untreatable Lou Gehrig's disease, a condition which affects the nervous system.

Suez to reshape banking arm and inject FFr1bn

By Andrew Jack in Paris

Groupe Suez, the French industrial and financial holding company, plans to inject FFr1bn ($198m) in cash into Banque Indosuez, its banking arm, by the end of 1996 as part of a wide-ranging restructuring plan for the bank announced this weekend.

The money will be used to capitalise a new ring-fenced company within the Indosuez group to support its market activities, in an effort to ensure it gains the highest credit rating of AAA.

Separately, Mr Gérard Mestrallet, chairman of Suez and of Indosuez's supervisory board, confirmed that the sale of Gartmore, the UK-based fund management group 75 per cent controlled by the bank, would go ahead as planned.

He said the proceeds of the Gartmore sale would be retained by Indosuez to help fund its development, rather than being clawed back by the Suez parent company, which reported losses of nearly FFr4bn in the first six months of last year.

The details come as part of a restructuring plan developed over the past five months with McKinsey, the management consultants, to turn Indosuez into an international integrated investment bank specialising in Europe, the Middle East and Asia.

The objective is to cut annual operating costs by FFr250m by the end of 1998, raise productivity and boost return on equity to 9 per cent within three years.

The operation will involve the closure and merger of a number of the bank's activities, including shutting its commercial banking operations in the US.

The US, Tokyo, London and Paris will remain important distribution centres for its business services, but a number of operations in other countries, including the Netherlands, are likely to be scaled back. There will be considerable growth in operations in Asia, and the Middle East.

The plan for Indosuez represents one of the most important changes since Mr Mestrallet took charge of Suez last summer following a shareholder revolt against his predecessor, Mr Gérard Worms, who was forced to resign.

The Suez board decided last year to retain Indosuez in the group, to sell Gartmore and clean out the bank's loss-making property loan portfolio.

Earlier this month, Suez announced the sudden departure of Mr Jean-François Lepetit, deputy chairman of the bank for less than two years. He was replaced by Mr Christian Maurin, formerly head of Sofinco, which is also owned by Suez.

This weekend, Indosuez said there would be two other directors on an executive board, which would have responsibility for executive management. Its parent, Suez, would narrow its focus to four areas: strategy, nominations, management control and financial guidance.

Indosuez reported net profits of FFr46m in the first half last year, and had assets of FFr425bn.

Food group voices fears as it prepares Russian launches

Vodka row clouds GrandMet expansion

By John Thornhill in Moscow

A legal clash over ownership rights to the Smirnoff vodka brand is clouding Grand Metropolitan's plans to expand in Russia and may affect investment by other multinational consumer products groups, senior company officials said in Moscow.

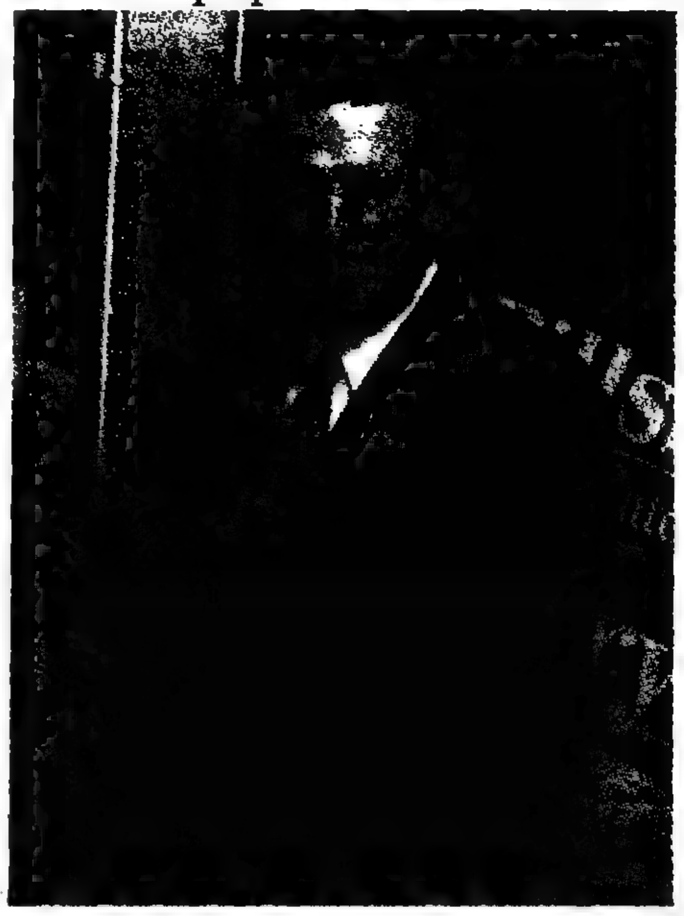
The dispute has blown up as the UK food and drinks company is planning to launch a range of Pillsbury food products in Russia, which it views as one of its most promising markets.

GrandMet has been operating in Russia for several years through its IDV drinks arm and has established its Smirnoff brand at the top end of the country's vast vodka market.

But recent court injunctions have temporarily halted vodka imports as a result of a legal tussle with one of the descendants of the Smirnov family, who is claiming ownership of the trademark.

Mr John McGrath, who takes over as group chief executive in March, described the legal challenge as a "nonsense" but warned a failure to resolve it quickly would deter foreign investors from Russia. However, Mr McGrath confirmed GrandMet's interest in Russia despite recent political uncertainties.

"There are a number of emerging markets where there is potential for fast profit growth. The Philippines and India will give us a very rapid return. Russia also offers a very good opportunity for us although the cost of doing business is still quite high," Mr McGrath said. "About 250m cases of bona fide vodka are sold in Russia a year which is about three times as much as in the rest of the world market."



Malcolm Watson

John McGrath: 'cost of doing business is still quite high'

GrandMet, which has conducted extensive research on the peculiarities of the Russian market, believes about 30 of its food products might suit the local palate, including some traditional Pillsbury dough products and its Green Giant vegetable range.

GrandMet's US foods arm intends to provide instructions in Russian on how to use the products and may later make products tailored to Russian tastes.

If sales meet targets, Pillsbury would move to manufacturing in Russia through a venture with VAO Soyouzplodoimport, a leading Russian food importer and exporter, Mr Lucio Rizzi, president of Pillsbury International said. When the venture was set up a year ago, GrandMet talked of investing up to $100m in the next few years.

Eurotunnel establishes committee for small investors

By William Lewis in London and Andrew Jack in Paris

Eurotunnel, the Anglo-French company which operates the Channel tunnel, has set up a committee of individual UK shareholders in an attempt to improve its investor relations.

The committee is said by Eurotunnel to be the first of its kind in the UK. "It is to have them help us improve our communication with UK shareholders," it said. A similar committee has been set up in France and an individual French shareholder is joining the board.

The UK committee comprises eight volunteers including a chartered accountant, a retired oil industry executive and an assistant bank manager. It has met the company twice. "They have already made some pretty excellent suggestions," Eurotunnel said.

UK institutional shareholders often form ad hoc committees to help strengthen their interests at crisis-hit companies, but Eurotunnel believes it is the first UK company to set up a committee of small shareholders. In France, about 12 public companies have created such committees to strengthen links with investors.

Eurotunnel's move comes as talks with its banks, to whom it owes £8bn ($12bn), appear to be making slow progress. In September, it said it had suspended interest payments on its debt and was entering talks with its banks to rearrange its finances. Eurotunnel had hoped to make a statement to shareholders by the end of January about the negotiations, but it said last week that mid-February was now more likely.

The shareholder committees are in part an attempt to strengthen Eurotunnel in the negotiations. Sir Alastair Morton, co-chairman, wants to avoid a debt for equity swap, which would further dilute shareholders' interests, as a solution to the company's crisis.

With about 58 per cent of Eurotunnel's shares owned by small investors, there has not until now been a formal channel through which they could represent their interests. Eurotunnel and its banks also realise shareholders could scupper any financial plan that penalises them too heavily by voting it down at the company's annual meeting.

Business Travel, Page 10

This week: Company news

THYSSEN

Flat market will depress German steelmaker

The German steel and engineering group reports its 1995 results tomorrow. It is expected to give further indications about business in the current financial year, which ends on September 30. The company released preliminary data in November showing net profits of DM775m, ($524m), a leap from DM90m the year before.

Thyssen has said that prices for higher grade steels have fallen by around DM100 per tonne in recent months and while it and other steelmakers insist that the market will pick up later this year, there is speculation that the market may remain flat, creating considerable problems for Germany's biggest steelmaker.

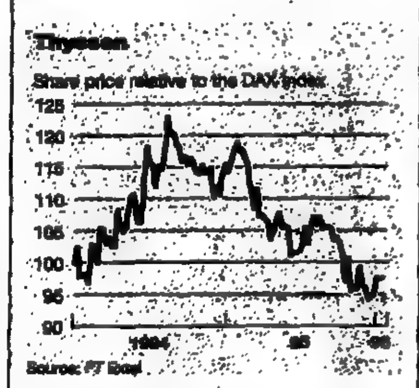
Mr Dieter Vogel, who takes over as chief executive of the entire group in March, warned last week that Thyssen Handelsunion (THU), the trade and services division which he heads, would have a "very difficult" year because of the slowdown in the German economy. Business in the first quarter was "subdued", THU said, and the difficulties in the German construction market are likely to damp the division's performance.

OTHER COMPANIES

Ford's latest models don't come cheap

Ford Motor's latest results, due on Wednesday, will show just how expensive it has been for the US's second biggest carmaker to revamp a large part of its model line-up at one go.

With the new Taurus off to a slow start in the US and heavy launch costs for an updated Fiesta in Europe and pick-up trucks in the US, Ford's automotive operations are expected to show a loss for the final three months of 1995.



The model overhaul will continue to weigh on Ford's earnings for the first half of this year.

Continued growth from its financial services businesses, though, should enable the company to register an overall profit of about 20-30 cents a share for the final three months of 1994, compared with earnings of $1.47 a year before.

General Motors' latest earnings, due tomorrow, will also register a slowdown. The company is more reliant than Ford or Chrysler on sales of cars, rather than higher-margin light trucks, and it is the car market that has shown the most weakness in the US in recent months.

GM's sales of sports utilities and pick-up trucks have also been held back by a shortage of transmissions.

Earnings from one of the company's strongest businesses – its European operations – will be hurt by the weak European economy and the launch of a new sedan.

GM is expected to report earnings of about $1.35 a share, compared with $1.74 a year ago.

■ **SAP:** The fast-growing German business software company which has seen its shares rocket over the past two years will announce preliminary results for 1995 on Wednesday.

Analysts will be watching to see how it measures up to the market's high expectations.

At the nine-month stage, SAP's pre-tax profits were 47 per cent higher at DM385m ($260m). But as analysts had expected a 60 per cent advance, against one of 80 per cent in the first half, the shares slipped.

■ **Electrolux:** The world's largest maker of household appliances presents its 1995 figures tomorrow amid considerable gloom about the strength of consumer demand in the Swedish group's main west European and North American markets.

Analysts are looking for profits of about SKr3.9bn ($580m), about SKr500m more than in 1994 if one-off items are excluded.

■ **Filtronic Comtek:** The UK supplier of components to the mobile telecommunications market, reports half-year results today with analysts forecasting pre-tax profits of £1.8m ($2.77m), against £1.5m in the same period last time.

Earnings per share are expected to decline from 2.8p to 2.6p, reflecting the fact that the group floated on the market in October 1994.
Progress is expected on product developments, while news is also likely on facilities being developed in the UK and US.

■ **Peel Holdings:** The UK property group reports its interim results on Wednesday, when shareholders will be eager to hear what the group has to say about the Trafford shopping centre development.

Peel has been given permission to begin work on the site but has yet to disclose how the £200m ($308m) project will be financed. Shareholders will also want to hear what the impact of the government's new landfill tax will be on the Manchester Ship Canal, which Peel owns.

Analysts' forecasts for interim pre-tax profits range from £2.5m to £3.5m, compared with £3.04m last time.

■ **Misys:** The UK-based computer software group is expected on Thursday to report sharply higher interim profits and turnover, partly reflecting acquisitions such as the purchase of ACT in April last year.

Pre-tax profits for the half year are expected to jump to about £22.6m ($34.8m) from £11.2m. The markets will be watching for evidence of organic growth, particularly in the banking and insurance software divisions, now that the acquisitions have been bedded in.

The group's shares, which peaked at 685p last year, have historically tended to trade at a discount to the market sector because of concerns about acquisition accounting. Some analysts believe they could now begin to outperform the sector.

Companies in this issue

SFO probe delays British Bus float

By Geoff Dyer

British Bus is increasingly unlikely to go ahead this year with its plan to float because of a Serious Fraud Office inquiry involving its chairman.

Mr Stephen Bayfield, director of corporate development, said: "I would be surprised if British Bus floated in the short-to-medium term and it is certainly highly unlikely in the next six months."

The Salisbury-based company, the third largest bus operator in the UK, had been preparing to float last autumn with an expected market value of about £250m. Hambros had been appointed adviser and Cazenove broker for the exercise.

However, the plan had to be put on hold after the SFO began investigating a gift from Mr Dawson Williams, chairman, to an executive at Bank of Boston, the company's lead bank.

Mr Bayfield said the company had been hoping to hear from the SFO before Christmas but had still received no indication. "We are becalmed at the moment," he said.

The delay had forced the company to re-examine the value of a flotation, he said. It had wanted to raise the money in order to finance acquisitions during a period of rapid consolidation in the bus industry.

"The ideal time for a float was September to March this year, because if we had had a lot of cash, we would have been in a strong position to grow by acquisition fairly quickly," Mr Bayfield said.

The company was now back at "the drawing board". Other options, such as a merger or sale, would be considered alongside flotation.

Analysts said that flotation would still be possible later in the year. However, they said the market would become more sceptical about the company the longer it waited, because opportunities to grow by acquisition were running out.

According to Mr Clive Anderson, analyst at Merrill Lynch: "The quoted bus companies have reasonable prospects in the next two years, but the market is now asking what happens next?"

British Bus stressed that the company itself was not under investigation by the SFO.

Heavy loss at Unisys leads to job cuts

By Louise Kehoe in San Francisco

Unisys is to cut 7,900 jobs, about 21 per cent of its workforce, after reporting heavy losses for the fourth quarter. The cuts are the latest restructuring by the struggling computer company.

Net losses for the fourth quarter, including charges, were $677m, or $4.12 a share, compared with losses of $52.3m, or 48 cents a share, in the same period last year. Revenues for the quarter grew 5 per cent to $1.84bn.

Fourth-quarter charges included $582 for staff cuts and the future consolidation of office and manufacturing facilities. Additional charges covered losses on outsourcing contracts and the elimination of some products.

The job cuts and charges were bigger than the company had expected in October, when it announced plans to revamp its operations, abandon its traditional matrix management structure and form three stand-alone business units focused on information services, computer hardware and customer services.

Most of the job cuts will be in North America and Europe, Unisys said, with three-quarters to be made this year. It expects savings of $500m in 1996 and $600m in 1997.

Like IBM and Digital Equipment, which dominated the computer market with their mainframe and mini-computers until a decade ago, Unisys has been forced to refocus its operations as its customers have come to rely increasingly on networks of smaller computer systems.

The latest restructuring is "much more than a downsizing", said Mr James Unruh, Unisys chairman and chief executive. The changes will enable Unisys to accelerate its transition to higher growth segments of the computer market such as services, which grew by 21 per cent in the fourth quarter, he said.

For the year, Unisys reported net losses of $625m, or $4.35 a share, compared with net income of $100m.

Cross-border acquisitions boosted by surge into UK

By George Graham

Cross-border acquisitions increased last year for the seventh year in succession, according to statistics compiled by KPMG Corporate Finance, the merger advisory arm of the accounting partnership.

The study showed a 12 per cent jump to 5,952 deals, with an even larger increase in their combined value to $229.4bn (£149bn).

The rise was fuelled by a surge in foreign investment in the UK. A handful of large deals pushed the total value of takeovers of British targets to $35bn, against $14.5bn in 1994.

This made the UK the second most popular acquisition target, behind the US, with deals worth $60bn, but well ahead of China, France and Australia, clustered together with nearly $13bn of deals each.

The UK was also the second largest acquirer of foreign businesses, but its total slipped from $33.4bn in 1994 to $24.4bn. The US was the largest cross-border acquirer, up from $43.4bn to $63.7bn. Germany climbed into third place with acquisitions worth $21.2bn.

● The number of mergers and acquisitions in the worldwide information technology industry jumped by almost 60 per cent to 2,918 last year, according to Broadview Associates the M&A specialists. Transaction value increased by 48 per cent to $134bn ($90.5bn), writes Paul Taylor.

In Europe there were 1,350 (982) transactions worth $51.2bn ($21.3bn). The telecoms services sector again generated the largest transactions, accounting for 98 deals worth $20.1bn. By comparison, software and services was the most active segment, accounting for 356 deals valued at $4.4bn.

In the UK, the value of deals reached a record $14.7bn, more than three times the 1994 total, and the number of transactions grew by 32 per cent to 453.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Farnell Electronics (UK)	Premier Industrial Corp (US)	Electronic components	£1.85bn	Surprise agreed bid
Broken Hill Proprietary (Australia)	Magma Copper (US)	Mining	£1.54bn	Buy formally completed
L'Oréal (France)	Maybelline (US)	Consumer products	£486m	Increased offer recommended
Unilever (UK/N'Lands)	Diversey (Canada)	Industrial cleaning	£360m	Molson disposal
Benckiser (Germany)	Maybelline (US)	Consumer products	£336m	Bid withdrawn
Investor consortium (International)	Hasselblad (Sweden)	Photographic equipment	£56m	UBS/CINVen lead buy-out
Kerry Group (Ireland)	Cipriel (France)	Food	£52.4m	Cash + debt deal
Alpha Airports (UK)	Orient Lanka	Retailing	£12m	Duty free stake
Ace (Bermuda)	Methuen (UK)	Insurance	n/a	Corporates grow at Lloyd's
Artsana (Italy)	Prénatal (France)	Retailing	n/a	Boosting baby business

Data Sciences set for debut with £80m tag

By Paul Taylor

Data Sciences plans a stock market flotation within the next two months which is expected to value the computer services group – a management buy-out from Thorn-EMI in July 1991 – at about £80m.

The group employs 1,700 people in the UK, the Netherlands and Germany. It is expected to raise about £40m in new money, part of which will be used to repay debt and preference shares incurred as a result of the MBO.

Data Sciences had a troubled start when it failed to meet buy-out targets. Following management changes, two senior ICL executives were recruited to reorganise and run the business. Mr Andy Roberts took over as chief executive and Mr Mike Wade became sales and marketing director in 1993. The group underwent a financial restructuring and was reorganised to focus on higher value operations boosting operating margins steadily to 5.8 per cent last year.

Turnover, mostly from systems integration and outsourcing, grew 18 per cent to £105.7m in the year to September 30 while operating profits jumped 80 per cent to £6.1m. Net borrowings fell by £7.7m to £3.9m and the year-end order backlog stood at £101m, an increase of more than 13 per cent.

Virgin favourite to buy Reed arm

Virgin, Mr Richard Branson's leisure group, has emerged as a front runner to buy Reed Consumer Books, which owns copyrights to children's perennials such as Winnie the Pooh and Thomas the Tank Engine, writes David Blackwell.

The price for the deal is understood to be more than £90m.

Reed Elsevier put the division up for sale last July as part of a programme that would allow it to concentrate on more profitable areas of specialist publishing and online services. Before the collapse of the net book agreement a tag of up to £250m was expected, and an MBO bid of £200m is thought to have been rejected.

TransAtlantic in savings stake

TransAtlantic Holdings, the UK-registered company controlled by Liberty Life Association of Africa, is to re-enter the British savings market by taking a 70 per cent stake in unit trust managers Portfolio Fund Management.

Portfolio has assets under management of £22m.

Last August, Liberty sold its 60 per cent stake in Sun Life, the UK life insurer, for £527m. One reason cited was concern about sales costs.

Mr David Fishel, managing director at TransAtlantic, will become chairman of Portfolio. He said the acquisition, valued at £579,000, was "the first in a series of developments planned for 1996".

NEWS DIGEST

Buoyant demand lifts Sanyo Electric

Sanyo Electric reported a 46 per cent increase in consolidated pre-tax profits for the year to November 1995, helped by restructuring, a hot summer in Japan and buoyant demand. Pre-tax profits rose from Y28.3bn to Y41.2bn ($386m), on a moderate increase in sales of just less than 3 per cent to Y1,707bn.

The unusually hot summer spurred domestic sales of refrigerators and air conditioners, while the growth of the cellular phone market in Japan and PCs throughout the world, stimulated demand for Sanyo's rechargeable batteries. Sanyo's semiconductor business also did well, with demand for semiconductors used in CD-ROM drives particularly strong. Restructuring also helped the results, although the company has not disclosed the level of cost cuts achieved so far.

Sanyo is changing its fiscal year-end to March. The company expects to report consolidated sales of Y510bn in the four months to the end of March but will report a Y4bn net loss due to a write-off at one of its subsidiaries related to the reorganisation of its international dealers.

Michiyo Nakamoto, Tokyo

Abitibi curtails production

The sudden weakness in newsprint markets has led Abitibi-Price, one of North America's biggest suppliers, to curtail production. It is the first producer to acknowledge that a price increase planned for this spring is unlikely to stick without measures to bring supply into line with slipping demand. Most producers have also decided over the past 10 days to defer a proposed $50 per tonne price rise from March to April. List prices are due to rise from $825 to $875 a tonne, compared with $410 a tonne in late 1993. A buyer for one US newspaper chain said that some large buyers are discussing deals to postpone the price increase beyond April in return for commitments to maintain order volumes.

Abitibi said it would trim output at its 10 mills by 35,000 tonnes in February and March. Mr John Weaver, executive vice-president, described the cut as "a temporary measure to allow excess inventories to run off". But he added that Abitibi would "continue to take downtime as necessary while there continues to be a supply and demand imbalance". One US paper consultant said more widespread cuts were probably needed for mills to succeed in pushing through the April price rise.

Bernard Simon, Montreal

Huhtamaki profits slump

Huhtamaki, the Finnish consumer products group, is to scale back its confectionery operations sharply after revealing a 29 per cent slump in 1995 group profits to FM312m ($68.5m). Six out of 21 confectionery plants in Europe and North America will either be closed or divested to eliminate excess capacity and lift the division's operating margin from 6 to 10 per cent. Analysts say the plan will cut between 500 and 800 of its Leaf subsidiary's 6,000 staff and save between FM80m and FM120m a year. "Leaf's operating margin is too low and it has been improving too slowly," Huhtamaki said.

Huhtamaki is separately trying to dispose of its troubled US collectible cards business, Donruss. The need for tough action has risen due to the drop in group profits caused mainly by the stronger Finnish markka and a sharp decline into the red at Donruss. The currency impact lopped FM60m off profits, while Donruss made a FM52m operating loss last year, compared with FM9m in profits a year earlier.

Huhtamaki warned in December that 1995 profits would be "clearly" below the FM442m achieved a year earlier, but its figures were still below the FM347m the market was expecting.

Christopher Brown-Humes, Stockholm

COMPANIES AND FINANCE

Santander optimistic after 'excellent' year

By Tom Burns in Madrid

Banco Santander, the leading Spanish bank group which is absorbing the troubled Banco Español de Crédito (Banesto), had an "excellent" year in 1995 and faced "frankly optimistic" prospects this year, chairman Mr Emilio Botín said.

Santander lifted its pre-tax profits by 2.1 per cent to Pta145.9bn ($1.2bn) last year. Attributable profits after minorities, in line with market forecasts, was up by 8.3 per cent to Pta75.3bn. The 1995 dividend per share will be increased by 7.7 per cent to Pta280.

Year-on-year comparisons were not strictly comparable because Banesto was consolidated for only the second half of 1994 and for the full 12 months of 1995. The inclusion of Banesto in the 1995 consolidated statement diluted the results of the Santander group by Pta12.3bn.

The results demonstrated the financial muscle of Santander, which has allowed it to take the Banesto absorption in its stride and to establish itself, as a result of the takeover, as the largest banking group in Spain in terms of the financial market quota. Excluding Banesto, Santander raised its net attributable income by 27.7 per cent to Pta87.7bn.

The strength of the Santander group's banking position was underlined by a 20.7 per cent growth last year on 1994 in its net interest income to Pta341.7bn, by a rise of 41.7 per cent to Pta555.8bn in its operating margin (thanks to to a sharp increase in fees and commissions and a turnround in treasury earnings) and by a 35 per cent increase to Pta158.7bn in operating profits.

Mr Botín said the group, which owns 11 per cent of US Bank First Union and 10 per cent of the UK's Royal Bank of Scotland stood to make impressive gains this year, thanks in part to Banesto's recovery, that would raise net attributable income by between 7 per cent and 12 per cent

● Argentaria, the state-controlled Spanish banking group, paved the way for a third phase of privatisation by announcing an 11.7 per cent increase in attributable net profit to Pta74.2bn ($595m) in 1995 and predicting a further 15 per cent rise this year, writes David White in Madrid. It is proposing a dividend of Pta270, up 3.8 per cent.

Mr Francisco Luzón, chairman, said Argentaria's share price, which closed 0.58 per cent higher on Friday at Pta5,170, was "at least 25 per cent undervalued".

The placement of 25 per cent of Argentaria's shares, expected shortly after Spain's general elections on March 3, follows two previous offerings in 1993.

The 1995 figures included financial restructuring at Argentaria's main subsidiary Banco Exterior de España, which led to a sharp 46 per cent increase in provisions for bad debts to Pta68.6bn, and a fall of almost 10 per cent in pre-tax earnings to Pta84.9bn.

This was offset by a tax credit, which reduced tax charges by 47 per cent to Pta11.3bn, and a positive entry of Pta588m with respect to minority interests, against a Pta6.4bn deduction in 1994.

News and MCI put their money on DBS

In the shifting world of US multimedia, three truths are held to be self-evident. First, the opportunities are limitless: second, the future is unknown: third, whatever happens, it will cost a lot.

It is the ideal field for gamblers. Enter, on cue, the media tycoon Mr Rupert Murdoch and the US phone company MCI. Both are known for their boldness in predicting the future. Both are ready to bet heavily on the outcome.

When the two companies won last week's US government auction for the last available nationwide satellite TV spectrum, their $682m bid topped the competition by a factor of two. So confident had they been of victory, they said, that they had been negotiating with suppliers to set up the new venture for months.

In the US, in contrast with many other countries, satellite TV is a fledgling medium. This is partly because cable TV has been around for a generation; the market is correspondingly mature. By 1994, 62 per cent of US households with TV sets had cable. According to the New York media investment house Veronis Suhler, that figure will be unchanged at the end of the decade.

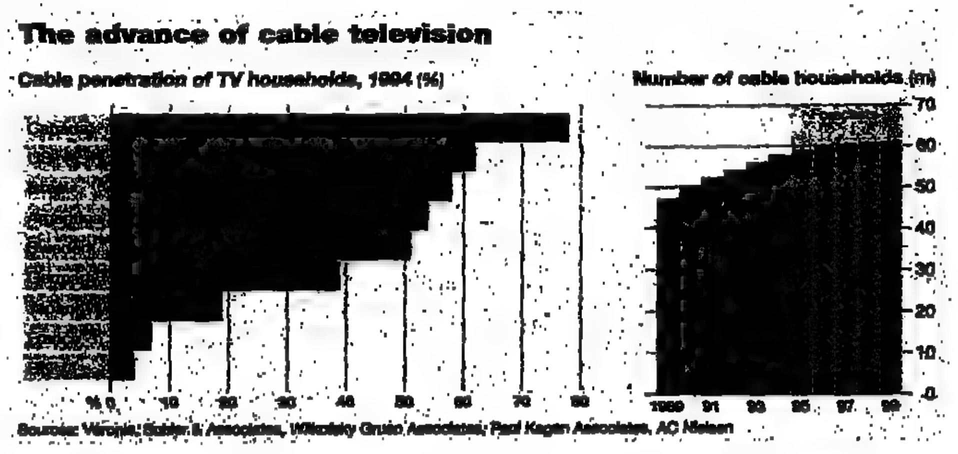
The satellite technology to be employed by the venture, Direct Broadcast Satellite (DBS), has only been on the US market since 1994. But it is correspondingly sophisticated. When the new service starts in autumn 1997, it will offer 150–200 digital channels. By the end of the decade, MCI says, the figure could be 400–500.

The market growth is equally explosive. The leading operator, DirecTV – a subsidiary of Hughes Electronics, in turn part of General Motors – started up 18 months ago. It now claims 1.25m subscribers, perhaps a third of all domestic satellite users in the US. DirecTV has yet to make a profit; but last week the phone company AT&T bought a 2.5 per cent stake on terms valuing the company at $5.5bn.

Many of the channels on the MCI-News Corp service will offer entertainment of a type familiar to viewers of Mr Murdoch's satellite operations in Europe and Asia. Some will not. While News Corp's job is to occupy people's leisure hours in front of the TV, MCI's is to keep workers glued to their personal computers.

The advance of cable television

Cable penetration of TV households, 1994 (%) — *Number of cable households (m)*



Sources: Veronis, Suhler & Associates, Wilkofsky Gruen Associates, Paul Kagan Associates, AC Nielsen

Perhaps the chief feature of the DBS technology, in MCI's view, is that it can download material much faster than a telephone line. Even compared with modern ISDN phone links, MCI claims, it can transmit 50–100 times faster, and very much cheaper.

Take computer software, MCI says. Microsoft's Windows 95 programme costs perhaps $20 per version to distribute to the average user. Using DBS, it could be downloaded for pennies to the subscriber's PC in the space of five minutes.

Or take sales personnel working from home. Orders and schedules could be downloaded to their PCs overnight. A 100-page document, MCI claims, could be transmitted in 15 seconds.

Potentially most important, take the Internet. The system allows basic Internet commands to be sent out through MCI's landline telephone system. Lengthy Internet files which might take hours to arrive through an Internet phone link could be sent in a fraction of the time.

None of this is unique to satellite. Cable TV suppliers will aim to offer the same broad band services through fixed digital links to the home. As soon as the market is deregulated by the telecommunications bill now passing through Congress, phone companies will do the same.

MCI-News Corp says this will prove a long and costly process, thus offering a window of opportunity. As an executive said last week: "We expect the time and capital required to build cable systems which will compete with DBS to stretch well into the next decade."

There is another formidable competitor: AT&T, MCI's bigger rival in long-distance telephony. On buying its 2.5 per cent of DirecTV, AT&T took an option to raise its stake to 30 per cent, and will also use its enormous marketing muscle to sell the service around the US. In declining to bid for the DBS spectrum bought by MCI and Murdoch, AT&T said its DirecTV stake would not only cost less, it would buy it immediate access to the market.

MCI has two answers to this. First, AT&T is only a minority holder in an entertainment-based medium. Its own venture will be wholly owned and geared to the business market. As for AT&T's head start, MCI looks to AT&T's advertising to create awareness of the new medium in time for its own launch in the autumn of 1997.

It is a bold and typically sanguine strategy. Like many others in the communications game, it may fall apart. If so, it will do so publicly. The partners are committed to putting a couple of satellites in space at a cost of about $500m. Abandoning such an investment would be hard to hide.

On the other hand, Mr Murdoch has a reputation as one of the best strategists in the world of media. "I believe," he said last week, "that we're moving to a wire-less world." Satellite, it seems, looms ever larger in his crystal ball.

Tony Jackson

Setback for AirNZ in bid for Ansett stake

By Terry Hall in Wellington and Nikki Tait in Sydney

New Zealand's Commerce Commission, the competition watchdog, has rejected Air New Zealand's application to buy up to 50 per cent of Ansett, the Australian airline, from TNT, the transportation group, for A$425m (US$314m).

Mr Alan Bollard, the commission's chairman, said it would lead to Air New Zealand gaining a dominant position in the domestic airline market.

But he emphasised that the ruling was not a final decision. While the Commerce Act prohibits acquisitions that can lead to a dominant position in any market, it allows the commission to over-ride the act if it is satisfied there will be significant public benefits.

The commission is now calling a three-day conference at which Air NZ and other interested parties can make submissions on its preliminary decision. It will make a final decision by March 20.

Mr Bollard said his preliminary view was that deal would give Air NZ and Ansett a dominant position in the New Zealand domestic passenger market, leading to a less competitive industry, and greater costs to consumers.

From the outset, the deal faced the problem that Ansett's New Zealand subsidiary provides the only significant competition to Air NZ within its own country. In its application, Air NZ promised to "ring-fence" Ansett New Zealand, and run it as a separate company with its own management.

Mr Bollard said the commission was unable to accept the proposed "quarantine" structure, which it would be unable to police, but indicated that it might accept a proposal under which the applicant agreed to sell assets or shares.

This has already been seen as a possible compromise solution, but it assumes Air NZ, TNT, and Mr Rupert Murdoch's News Corporation, which owns the other 50 per cent of Ansett, could agree on a sale of Ansett New Zealand's operations.

NEWS DIGEST

Alfa profits helped by record exports

Record exports of $1.1bn helped Alfa, one of Mexico's biggest conglomerates, post profits of 1.7bn pesos ($220m) for 1995, despite the severe recession. The figure compares with a loss of 1.62bn pesos in 1994.

Most of Alfa's total debt of 18.5bn pesos is dollar-denominated and under Mexican accounting practices any increase in its value in peso terms is recorded as a loss on the income statement.

Sales rose 51 per cent to 21.5bn pesos, due to increases in capacity and high prices for steel and petrochemicals. Mr Alfonso González Migoya, the company's corporate director, said that Alfa's long-term contracts would help moderate current downturns in prices for steel and some petrochemical products.

Cashflow in 1995 was 4.6bn pesos, more than twice the 1994 figures, and the company expects that continued "healthy cashflow" will finance a significant part of projected capital expenditure of $830m for 1996, half of which will be devoted to a telecommunications project with AT&T. Mr González Migoya said a third of the capital expenditure programme would be financed by borrowing.

However, analysts said the expansion plans could be affected if income falls in 1996. "The question is whether [Alfa is] going to generate the same amount of operating income," said Mr José Levy, an analyst at Bear Stearns in New York. "To maintain this level of sales and profitability depends on how the Mexican economy recovers in 1996."

■ Teléfonos de Mexico (Telmex), Mexico's dominant telecommunications company, is planning a $250m securitisation during the first quarter, it was confirmed last week. Mr Adolfo Cerezo, the company's finance director, said it was working with Bankers Trust on a securitisation of revenue from long-distance phone calls. The issue, which would mark Telmex's return to debt markets after the peso devaluation of December 1994, would have a maturity of between 12 and 18 months, he indicated.

Daniel Dombey, Mexico City

Vontobel group ahead

Vontobel Group, which is based around Bank Vontobel, the Zurich private bank, reported an 18 per cent jump in 1995 net profits from SFr34.9m to SFr41.1m ($34m), according to unaudited accounts. Vontobel will propose a 10 per cent increase in the dividend paid on bearer shares to SFr22 from SFr20 per share.

The family-controlled group, which ranks among the biggest of Switzerland's independent private banks, said assets under management increased by SFr1.6bn last year to SFr24.5bn. Group cashflow rose 17 per cent to SFr68.7m while return on equity improved from 9.5 per cent to 10.9 per cent. Bank Vontobel raised its net profit by 14 per cent to SFr39.9m. The group also owns a two-thirds stake in Tardy, de Watteville, a Geneva private bank, and a majority stake in Bankhaus Berger in Salzburg.

Frances Williams, Geneva

Apple shares 'may fall sharply'

With Sun Microsystems' widely rumoured bid to acquire Apple Computer yet to materialise, analysts said that shares in the ailing personal computer company may fall sharply unless there is a deal soon. Reports of Sun's interest in Apple have propped up Apple's shares since the company reported a $69m first-quarter loss and said it would cut 1,300 jobs, earlier this month, analysts said.

The rumours have also given Michael Spindler, Apple chief executive, a respite from critics and shareholders who have said he should resign.

Louise Kehoe, San Francisco

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / John Plender

Pension funds' puzzling behaviour

Regulatory change and demography are two of the most potent influences on the behaviour of capital markets. That helps explain the intensity of the debate on the impact of the minimum funding requirement in Britain's new Pensions Act.

The widespread assumption has been that, with UK pension funds approaching maturity, there would be a reduction in their exposure to the more volatile and illiquid asset categories in favour of bonds. Yet things are not progressing quite as expected.

Figures from the WM Company showing changes in the aggregate pension fund portfolio last year do admittedly reveal one marked adjustment which fits the expected pattern.

Property, a lumpy and illiquid investment, declined from 6.3 per cent to 5.1 per cent of the total. Index-linked also fell from 3.7 per cent to 3 per cent. Yet, while bonds showed an increase from 9.3 per cent to 9.9 per cent of the total portfolio, the eye-catching change was in the pension funds' already phenomenal exposure to domestic and overseas equities. This increased even more, from 76.6 per cent to 77.5 per cent – not the direction in which the minimum funding debate was expected to take us.

Meantime, a maturity analysis conducted by the same firm shows that there is remarkably little difference in the asset mix of mature and immature pension funds in the UK (see chart).

Even with super-mature funds, where the ratio of non-active member liabilities to total liabilities is more than 60 per cent, the picture is oddly stable. Only five out of 33 funds had radically altered their asset mix to reduce the exposure to equities and property. Marked differences in the degree of exposure to real assets were apparent only at the very extremes of the maturity range.

Why this contrary portfolio behaviour? Is the new funding requirement too lax, or are the asset allocators playing fast and loose with the rules?

The WM Company analysis admittedly found that funds are not quite as mature as sometimes assumed. But it remains the case that they have increased their exposure to real assets as they have become more mature.

Could it be that the performance of pension funds is now so important to sponsoring companies that finance directors are applying pressure, in the midst of Britain's biggest ever takeover boom, to achieve high returns without due regard to risk?

Or are the more mature funds, like the US savings and loans in the 1980s, responding to a difficult solvency position by seeking to trade their way out of trouble before the rules bite? That, too, would be another high risk/high reward strategy that might work for individual funds, but would fail in the aggregate if pursued by all.

Perhaps, more rationally, managers of maturing funds are simply worried about the potential cost of a big strategic move into bonds when the bond bull market looks very mature too.

Strategic portfolio moves precipitated by criteria that are not related purely to investment returns can rebound on fund managers.

The abolition of exchange controls in the UK in 1979, for example, preceded a marked increase in the profit share in gross domestic product and, at least initially, unexpected sterling strength. Diversification into foreign equities was thus a recipe for underperformance in the 1980s for UK funds, albeit at a lower degree of risk than otherwise.

Similarly, deregulation in continental European asset markets has had widely different effects, depending on the timing of the lifting of controls. The Swedes lost their shirts in UK property when they gained the freedom to travel in the second half of the 1980s. German funds made a killing in UK property in the recession of the early 1990s, partly because their deregulation coincided with a depressed market in an asset category they wanted.

Yet those who worry about the timing of a big strategic portfolio shift must also be conscious that valuations are arguably no more stretched in bonds than in equities.

So perhaps the most plausible explanation for the apparently herd-like behaviour of more mature UK pension funds is simply that the funding rules are not as demanding as they might have been and that the fund managers are prey to inertia. No action is necessary anyway, under the Act's rules, until a pension scheme's first triennial valuation after April 1997. Even then, compliance is phased in over the next five years.

Good asset-liability management would nonetheless call for maturing funds to change the portfolio mix regardless. Only in Hong Kong, among other economies with substantial pension fund investments, is equity exposure close to the UK level – and there, partly because of the unusual political context, pension funds are more heavily diversified overseas than their UK counterparts.

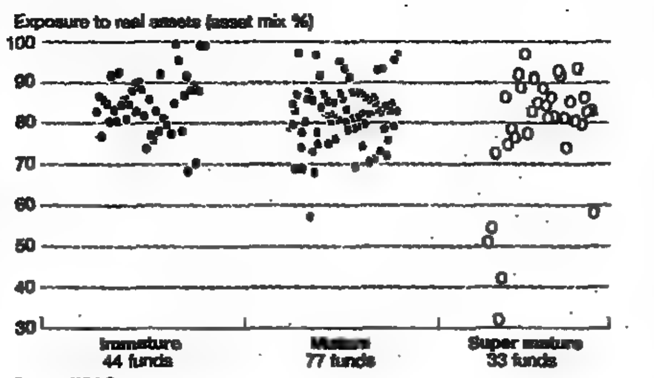
The key point is that the penalties for taking excessive risks are much more severe for mature pension funds than for immature funds. There is no more stable financial vehicle than an immature fund, because its growing cash flow gives it an immense capacity to absorb loss while continuing to pay pensions.

In contrast, a mature pension fund is highly vulnerable to shocks. Relatively small errors can lead to calls being made on the company or, in extremis, a reduction in benefits.

The lack of diversification among UK pension funds, especially by the super-mature ones shown in the chart, suggests that UK trustees have not grasped this fundamental truth.

There could be some nasty accidents before the minimum funding requirement takes real effect.

UK pension funds



Source: WM Company

Total return in local currency to 25/1/96

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.01	0.07	0.06	0.19	0.13
Month	0.48	0.03	0.34	0.43	0.88	0.55
Year	7.44	2.44	5.68	6.63	10.13	7.68
Bonds 3-5 year						
Week	-0.39	-0.25	-0.21	-0.05	-0.15	-0.37
Month	0.69	-0.56	1.56	2.19	3.61	0.97
Year	15.13	10.29	16.24	16.19	20.00	15.50
Bonds 7-10 year						
Week	-0.87	-0.36	-0.21	-0.05	-0.72	-0.65
Month	0.21	-0.85	2.28	2.83	4.97	1.43
Year	21.08	15.32	20.14	20.93	25.26	18.90
Equities						
Week	1.5	-0.3	2.4	-0.1	1.8	-0.1
Month	1.0	0.5	6.8	5.3	-5.2	2.4
Year	34.8	13.3	21.0	13.5	-3.9	29.3

Source: Cash & Bonds – Lehman Brothers. Equities-© FT/Excel Index Unit. The FT/S&P Actuaries World Indices are jointly owned by FT-SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

COMMODITIES — Kenneth Gooding

Pressure mounts on lead stocks

Supplies of lead, these days used mainly for batteries, are likely to be tight this year, so consumers will be watching anxiously to see if Asarco and the United Steel Workers union can reach agreement before labour contracts at three US smelters come to an end on Wednesday.

Between them the Asarco smelters – at East Helena, Montana; Omaha, Nebraska; and a small one at Globe, Colorado – account for about 7 per cent of primary lead production outside the Commonwealth of Independent States. Asarco announced last week that the Omaha smelter, which has the capacity to produce 75,000 tonnes a year, will close by the end of this year because it did not believe it worthwhile to spend the $40m needed to meet various environmental requirements.

Analysts suggest the market needs all the lead it can get this year. Mr Ernest Nutter, vice president and director at RBC Dominion Securities, suggests in his latest review of base metals markets that lead will see supply deficits throughout 1996 and next year. Stocks are forecast to fall to 379,000 tonnes, or the equivalent of only 4.2 weeks of consumption, by 1997.

Mr Angus MacMillan, research manager at Billiton Metals, says lead stocks were down to less than 5.5 weeks of consumption at the end of last year, "not a comfortable level". He adds: "We expect the lead market to record another deficit this year and, although it will probably move close to balance during the second half of the year, the stock drawdown we envisage in the coming months should reduce them to critically low levels and underpin higher prices."

Supply tightness began to drive up the lead price in the last quarter of 1995 and in mid-December it traded to a five-year peak of $746 a tonne. Like other metals traded on the London Metal Exchange, lead suffered when the US hedge funds started selling at the begining of January. But on Friday the price was well up from the low point at $714.50.

Economics Notebook / Robert Chote

Ins and outs of running the Euro

In the increasingly unlikely event that European monetary union takes place on schedule in 1999, what sort of relationship can we expect between those countries that are willing and able to join the single currency and those which cannot or will not?

Mr Kenneth Clarke, the UK chancellor, raised this question of "the ins and the outs" in a recent letter to Mr Lamberto Dini, chairman of the committee of European finance ministers. Understandably – given that Britain is most unlikely to be among the first wave of Emu participants – Mr Clarke's main concern is to protect the position of the outs relative to the ins.

But the ins might reasonably argue that if they have done the hard work necessary to secure a place on this perilous voyage, they cannot be expected to waste too much time fretting over the faint-hearts left on shore. After all, the ins face the alarming prospect of subjecting their economies to a common interest rate which will be set, at least initially, on the basis of little more than semi-educated guesswork. They will have enough troubles of their own.

But if Emu is as much about achieving the goal of greater European unity as delivering economic benefits to its participants, then the ins cannot simply set sail and forget about the outs for good. Hence the importance of Mr Clarke's questions for his fellow finance ministers:

- What link, if any, should there be between the single currency ("the Euro") and the currencies of those "outs" which may wish to embrace the Euro at a later date?
- Should the EU expand its budget: first, to help regions within the Euro area which find life tough under the common interest rate; or second, to help promote economic convergence in those countries which failed to join the Euro on their first attempt?
- How can the EU stop those economies which involuntarily missed out on Emu because they had not converged sufficiently with the ins from diverging even further from those core economies once Emu is in place?
- What is to stop the ins ganging up on the outs in votes within European institutions? How should the European central bank reconcile the needs of the ins and the outs when they conflict?

Mr Clarke had clearer answers to some of these questions than others. Not surprisingly, he took a tough line on the amount the EU should be allowed to spend:

"I certainly do not believe the Emu can justify any increase in the Community budget overall or in the scale of transfers, via the Community budget, from some member states to others".

But the theory of currency unions suggests that it would in fact be quite sensible to increase the size of fiscal transfers to certain parts of the Euro area. This would help ease some of the economic disparities between weak and strong economies which would previously have been dealt with through exchange rate changes. This would be particularly important if, as seems likely, workers remain relatively immobile within the Euro area.

Mr Clarke may be right to worry about big net fiscal transfers from the outs to the ins or vice versa. But bigger, although hopefully temporary, fiscal transfers between countries *within* the Euro area may be essential if the monetary union is to be sustained.

In a related question, Mr Clarke argued that the biggest challenge the finance ministers faced was to "work out and implement successfully solutions to prevent a major political and economic gap opening up between ins and at least some outs".

He noted that the proposal by Mr Theo Waigel, Germany's finance minister, for even tighter convergence within the Euro area after monetary union might make the gap between the ins and outs even harder to bridge.

Mr Clarke posed this question but – having spoken out so strongly against extending fiscal redistribution through the Community budget – he also seemed to rule out the most obvious answer to it.

So what about the exchange rate relationship between the ins and the outs? In a recent speech, Professor Charles Goodhart of the London School of Economics identified three possible models.

First, countries "might wish to mimic as far as possible the exchange rate conditions that would have pertained had they been participating as an in", tying their currencies rigidly to the Euro. Austria, Belgium, Denmark and Finland might take this option.

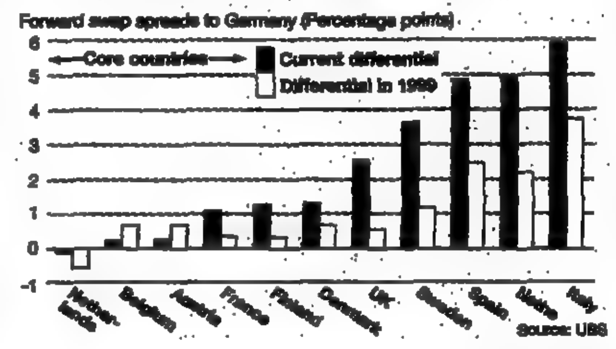
Second, countries could simply float their currencies, perhaps adopting an inflation, nominal demand or money supply target approved by the European Council or Commission. Italy, Greece and the UK might opt to do this.

Third, countries might establish a pegged but adjustable exchange rate relationship between their currencies and the Euro. This would in effect be a revised version of the exchange rate mechanism.

An important question remains in the case of options one and three. To what extent would the ins help the outs keep their currencies tied or pegged to the Euro? This in turn is related to one of Mr Clarke's final questions – how would the European central bank balance its responsibilities to the ins and the outs?

The European central bank will ultimately be judged on its ability to secure price stability within the Euro area. That will be difficult enough, without having to worry about overseeing a rump ERM as well. However, if the central bank takes this sensibly separatist attitude to the outs, then that will make all Mr Clarke's questions that little bit harder to answer.

Markets expect two-track Europe



Source: UBS

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by The Financial Times Ltd., Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by The Financial Times and Goldman Sachs in conjunction with the Institute of Actuaries and the Faculty of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS	FRIDAY JANUARY 26 1996								THURSDAY JANUARY 25 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (81)	191.02	0.5	188.41	128.81	148.09	171.90	1.2	3.08	190.55	185.51	128.26	146.25	171.80	196.40	157.95	164.93
Austria (28)	184.31	5.6	181.80	124.28	142.89	142.71	10.0	1.51	187.36	183.39	126.11	143.80	143.60	199.28	167.48	175.08
Belgium (34)	208.09	-0.5	205.25	140.32	161.32	157.31	3.6	3.32	211.30	206.82	142.23	162.19	158.16	215.22	166.86	167.91
Brazil (28)	155.50	12.7	153.38	104.86	120.55	279.99	13.5	1.57	155.61	152.31	104.74	119.43	279.64	160.23	86.06	148.05
Canada (101)	152.87	3.0	150.78	103.08	118.61	152.91	4.3	2.45	152.66	149.44	102.77	117.18	152.19	153.19	121.81	125.38
Denmark (33)	298.46	[illegible]	294.39	201.25	231.38	234.02	7.5	1.40	302.63	296.21	203.70	232.27	235.01	302.74	249.65	249.65
Finland (24)	175.60	-6.0	173.40	118.54	136.28	168.11	-1.4	1.89	178.50	174.72	120.15	137.00	169.98	276.11	171.13	164.89
France (98)	181.01	0.8	178.54	122.06	140.33	145.39	5.6	3.12	181.24	177.40	[illegible]	139.11	144.31	191.17	159.06	161.48
Germany (60)	168.32	2.8	166.03	113.50	130.49	130.49	7.1	1.85	170.83	167.21	114.99	131.11	131.11	170.83	139.77	140.53
Hong Kong (58)	431.84	11.4	425.85	291.19	334.79	428.86	11.4	3.34	430.60	421.47	289.84	330.49	427.43	431.84	289.43	289.43
Ireland (16)	255.19	-0.1	251.71	172.07	197.83	230.70	2.7	3.32	258.83	253.34	174.22	198.65	232.13	262.70	205.44	211.33
Italy (58)	74.66	1.3	73.64	50.34	57.88	89.39	2.4	1.84	75.73	74.12	50.97	58.12	90.02	82.71	65.45	60.39
Japan (482)	151.22	-2.4	149.15	101.97	117.23	101.97	0.9	0.75	150.24	147.06	101.13	115.31	101.13	164.82	136.95	142.17
Malaysia (107)	511.42	[illegible]	504.45	344.85	396.48	503.15	6.1	1.86	514.20	503.30	346.11	394.65	506.48	561.96	417.12	417.12
Mexico (18)	1203.04	16.1	1186.63	811.21	932.66	9756.37	11.9	1.42	1199.31	1173.89	807.26	920.48	9690.24	1237.14	647.81	1066.10
Netherland (19)	272.57	-0.1	268.85	183.79	211.31	207.78	4.1	3.14	275.00	269.17	185.10	211.06	207.54	280.49	218.81	220.35
New Zealand (14)	77.81	[illegible]	76.55	52.33	60.16	61.87	-4.4	4.70	77.97	76.32	52.48	59.84	62.01	85.49	71.73	71.73
Norway (33)	225.67	-2.4	222.59	152.17	174.95	200.02	0.8	2.09	228.77	223.92	153.98	175.58	200.87	243.79	202.76	210.65
Singapore (44)	443.83	9.0	437.88	299.34	344.16	299.88	9.2	1.39	445.07	435.63	299.56	341.59	290.57	445.07	329.67	329.57
South Africa (45)	435.83	19.1	429.89	293.85	337.96	340.35	13.5	3.38	436.21	426.98	293.61	334.79	347.69	436.21	281.06	290.62
Spain (37)	162.82	-1.4	160.60	109.79	[illegible]	156.01	2.8	3.92	165.99	162.47	111.73	127.40	157.12	168.91	124.10	130.17
Sweden (47)	295.76	-5.2	291.73	199.43	229.29	304.60	-0.5	1.97	301.29	294.90	202.80	231.24	306.74	324.31	232.23	237.11
Switzerland (39)	219.77	-6.9	216.77	148.19	170.38	164.32	-2.4	1.82	224.22	219.46	150.92	172.09	165.13	239.55	162.83	164.33
Thailand (46)	185.62	10.3	183.09	125.17	143.91	182.56	11.0	2.20	186.49	182.54	125.53	143.13	183.19	186.79	130.15	135.05
United Kingdom (208)	225.82	-2.0	222.74	152.27	175.06	222.74	1.2	4.17	227.59	222.76	153.19	174.68	222.76	232.23	192.73	194.24
USA (632)	253.30	0.8	249.85	170.80	196.37	252.30	0.8	2.25	251.47	248.14	169.27	193.01	251.47	253.50	191.73	191.73
Americas (779)	231.50	1.1	228.35	156.10	179.47	194.63	1.1	2.24	229.90	225.03	154.75	176.45	193.25	231.50	176.32	176.55
Europe (732)	188.39	-1.2	185.68	133.77	153.80	174.28	2.6	3.09	200.57	196.32	135.01	153.94	174.54	204.32	167.65	168.90
Nordic (137)	266.11	-3.5	262.48	179.44	206.30	295.87	0.9	1.87	270.58	264.84	182.13	207.67	237.45	295.02	222.22	227.18
Pacific Basin (833)	163.90	-0.8	161.66	110.52	127.08	113.58	2.0	1.17	163.04	159.58	109.74	125.13	112.84	171.87	145.95	148.88
Euro-Pacific (1565)	178.16	-1.0	175.73	120.13	138.12	136.64	2.3	2.04	178.57	174.79	120.20	137.08	136.29	183.39	156.37	157.09
North America (733)	247.07	0.9	243.70	166.60	191.54	246.52	0.9	2.26	245.34	240.14	165.14	188.30	244.76	247.07	187.62	187.62
Europe Ex. UK (526)	179.04	-0.8	176.59	120.73	138.80	147.35	3.4	2.40	181.39	177.49	122.05	139.17	147.66	184.61	150.45	151.39
Pacific Ex. Japan (351)	281.77	6.5	277.82	190.00	218.44	248.94	6.8	2.97	281.74	275.76	189.64	216.23	248.08	281.77	216.30	218.30
World Ex. US (1757)	180.09	-0.4	177.63	121.43	139.61	141.01	2.7	2.07	180.46	176.65	121.48	138.52	140.61	184.71	156.72	157.68
World Ex. UK (2183)	200.17	0.3	197.44	134.97	155.18	168.49	2.0	1.85	199.62	195.38	134.38	153.21	167.82	202.03	165.27	165.27
World Ex. Japan (1907)	231.09	0.9	227.94	155.82	179.16	218.84	2.2	2.56	231.01	226.11	155.48	177.30	218.05	232.30	182.89	183.11
The World Index (2389)	202.45	0.1	199.70	136.52	156.96	173.34	1.9	2.15	202.10	197.81	136.03	155.11	172.53	204.65	167.81	167.81

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.68 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.84 (Local). CONSTITUENT CHANGES DURING THE WEEK ENDING 26/1/96: Deletions: Dunlop Estates (Malaysia) and Landis & Gyr (Registered) (Switzerland). Name change: Pinnacle Service Group to Pinnacle Bank Group (USA).

EMERGING MARKETS: This Week

The Emerging Investor / Peter Wise in Lisbon

Promising start rekindles hopes

Memories of 1995 are fading like an unpleasant dream for Lisbon brokers as share prices surge upward at the start of what they forecast to be a brave new year for Portuguese equities.

"Shares have made an encouraging start that should set the tone for a buoyant year," says Mr Paulo Araujo, an analyst with Schroder Securities in London. "The market gained more in the first week of 1996 than it lost during the whole of 1995."

Lisbon's BVL-Geral index reached a 1996 high of 940.58 on Friday, a 7.2 per cent gain since the beginning of the year. Brokers are forecasting an annual increase of 15 per cent or more as interest rates fall and more international funds flow into emerging markets.

After two years of strong growth, the BVL-Geral fell 4.6 per cent in 1995. Trading volume on the secondary market dropped 5 per cent on 1994 to Es594.7bn ($3.9bn).

Shares were hit as fears that last October's general election would produce a hung parliament pushed up real interest rates.

"This kept domestic funds away from equities and foreign investors reduced their holdings as they awaited the election results," says Ms Mari Vargas, a London-based analyst with Dillion, Read Securities.

However, Portugal's political risk-premium fell when the socialists won a convincing victory, falling four seats short of an overall majority.

Government stability was further strengthened by the election of a socialist president, Mr Jorge Sampaio, on January 14.

Brokers base their optimism on an expected flow of funds from bonds into shares. "Portuguese equities have not yet reflected the sharp rally in the bond market in the fourth quarter," says Ms Vargas. "We believe this gives shares an upside of at least 15 to 20 per cent for 1996."

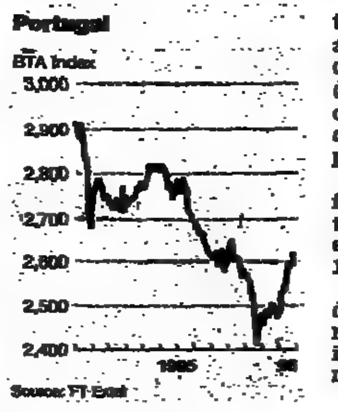
Yields on long-term government securities have fallen by more than 200 basis points since the general election to 8.74 per cent for the latest issue of 5-year Treasury Bills (OTs). Unusually for Portugal, yields for all public debt securities are currently lower than in Spain.

Mr Pierre Boulle, head of research at Lisbon brokers Fincor, forecasts that rates on 10-year OTs will fall to 8.75 per cent this year from 10.5 per cent in 1995, against a background of decelerating economic growth in Europe.

He sees three-month spot market interest rates dropping to between 7.25 and 7.5 per cent by the end of 1996, against 8.8 per cent last year.

He is confident that lower interest rates will favour equities throughout 1996, but expects a correction to the current rally after 1995 dividend payments are made. Dillion, Read forecasts that the average price/earnings ratio for Lisbon will fall from 13.8 per cent to 12.6 per cent this year.

Portugal



Source: FT Extel

As much as political stability, lower bond rates also reflect an upbeat outlook for inflation and the public deficit. Year-on-year inflation has fallen to record lows, reaching 3.4 per cent in December, compared with 4 per cent a year earlier.

Analysts see the government's 1996 average inflation target of 3.5 per cent, against 4.1 per cent last year, as realistic after the signing of a social pact setting a 4.5 per cent benchmark for wage increases.

The socialist government is expected to present a restrictive 1996 budget in early February. It aims to cut the budget deficit to 4.2 per cent of gross domestic product, from 5.6 per cent in 1995, to fall within the convergence criteria for European monetary union.

Economic growth forecasts for 1996 are being revised down to about 2.5 per cent, from an expected 2.5 to 3 per cent in 1995.

This is due mainly to the downgrading of growth estimates for Portugal's main trading partners, led by Spain, Germany and France.

"We're not over-concerned about growth," says Mr Mark Howard of Singer & Friedlander Iberia. "Portugal lags behind the main European economic cycle and can expect to maintain fairly buoyant growth into the second half of 1997, while the rest of Europe could be slipping into recession."

A number of companies rationalised operating costs as a result of the 1993 recession and are now better placed to benefit from an economic upturn.

In the industrial sector, brokers point to Corticeira Amorim, the world's leading cork producer, and Barbosa & Almeida, which controls 45 per cent of Portugal's glass packaging market, as niche companies that are relatively isolated from weaker demand.

However, it is the banking sector, which accounts for 30 per cent of total market capitalisation, that is likely to attract most attention in 1996.

Trends that have caused banks to underperform the market by 21 per cent over the past four years appear to be bottoming out.

Analysts at ING Barings say banks are currently trading at a discount of 30 per cent to the market based on historic earnings, compared with a 10 per cent premium in 1993. Results have been hit by a fall in net interest margins – which account for more than 75 per cent of total bank revenue in Portugal – from 5.6 per cent in 1990 to an expected 2.7 per cent this year.

Mr Emmanuel de Figueiredo of Carnegie Portugal says bank consolidation after two big takeovers last year will ease the fall in interest margins as banks compete less aggressively during a period of internal reorganisation.

Economic growth will lower bad debt provisioning requirements and increased bond revenue will improve earnings.

Privatisation revenue in 1996 is estimated at Es380bn, up from Es320bn in 1995. However, stock market offerings may not reach last year's level of Es200bn because the new government is likely to favour direct negotiations with strategic investors.

This year's biggest global offers are expected to be Cimpor, a cement company, and Electricidade de Portugal, the power utility.

Return of US money lifts Asian indices

US money has returned to Asia, driving market indices back towards the record highs of early 1994, writes Louise Lucas.

The small size of the Asia-Pacific markets outside Japan means that stock prices have risen quickly and steeply this year, almost purely on liquidity: the very factor which supported the last rally in these markets between 1993-94.

Data compiled by Salomon Brothers shows that the weekly net cash flows of US Pacific region mutual funds nearly tripled last week, and a number of US securities houses have upped their weightings on key markets such as Hong Kong (the biggest Asian market apart from Japan with a market capitalisation of $342bn) and South Korea, where prices have fallen sharply.

Malaysia (which has gained some 6 per cent in the first three weeks of the year), Thailand and the Philippines are being touted as potential performers, having risen sharply this year.

● UBS said on Friday that with a further cut in US interest rates expected this week, the flow of funds into global emerging markets had been strong: $500m last week, in addition to about $350m in the previous two weeks.

News round-up

■ Poland

The country's first large municipal bond has come from the city of Gdynia, a Baltic port and shipbuilding centre, which is to raise 28m zlotys ($11.2m) from institutional investors in an issue being arranged by ING Bank of the Netherlands.

The issue comes as other investment banks, including Merrill Lynch and JP Morgan, have targeted the country's municipal bond market as an important growth area.

The Gdynia bonds are being issued for one, two, three and four years. ING said the first tranche – issued last week – was oversubscribed. The unsecured bonds carry a coupon of 50, 75, 100 and 125 basis points over the average yield for 52-week treasury bills. The issue is private in that it is directed to less than 300 investors and thus does not require Securities Commission approval.

■ Thailand

The stock exchange is to launch the SET 50 index by June. It will run in parallel with the existing SET index.

The second market index will be based on the 50 leading stocks, from more than 400 issues listed. It will serve as a reference for government agencies to introduce index-linked securities such as index warrants, index futures and options.

■ Hungary

The privatisation of electricity suppliers is expected to be finished by the end of 1997. In December three German companies – RWE Energie, Isar-Amperwerke, and Bayernwerk – and a French company – Electricite de France International – acquired 46 to 49 per cent stakes in six electricity distributors.

■ Romania

Securities dealers have chosen the US Nasdaq Portal system for an over-the-counter market to trade privatisation shares. The OTC market is being created under a $15m (£9.7m) contract run by the US Agency for International Development.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page.*

CURRENCY MARKETS — Graham Bowley

US and Germany look at rates

European monetary union and the state of the US and European economies are two themes that are likely to dominate the foreign exchange markets in the coming week.

A cut in US interest rates in response to slower US economic growth is a possibility when the Federal Open Market Committee convenes tomorrow and on Wednesday.

The policy-making council of the Bundesbank meets on Thursday for its regular fortnightly discussion of the economic situation, amid signs that the German economy began to slow sharply at the end of last year.

Some economists think it might decide to lower interest rates to stimulate activity.

US jobs figures, due on Friday, will probably be the key data release of the week.

Mr Michael Burke, international economist at Citibank in London, expects the figures to show a further slowing of US jobs growth.

Mr Burke anticipates that the Federal Reserve will also lower interest rates after the FOMC meeting.

French unemployment data, due to be released on Wednesday, could have a large impact on the markets.

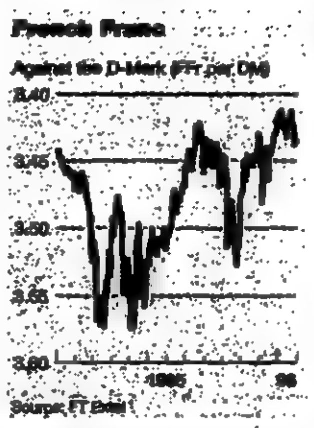
Mr Tony Norfield, UK treasury economist at ABN Amro Bank in London, thinks that if there is a sharp pick-up in the unemployment rate from October's 11.5 per cent, then the franc could come under pressure.

He said: "If that happens, it could be a serious blow to the French franc. It would indicate that meeting the fiscal criteria [for European monetary union] will be tough for France."

Currencies were buffeted last week by the suspicion that the current slowdown in some European countries was so severe that they could fail to qualify for the proposed single currency, or that monetary union would be delayed.

The D-Mark gained at the expense of other European currencies. The dollar, meanwhile, rallied against the D-Mark on the expectation that the German economy was slowing sharply.

French Franc



Source: FT Extel

ING Baring Securities Emerging Markets Indices

Index	26/1/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (395)	157.80	+1.22	+0.78	+9.82	+6.49	+10.24	+6.94
Latin America							
Argentina (22)	101.43	+4.03	+4.13	+8.16	+8.73	+8.65	+9.33
Brazil (25)	209.31	+3.28	+1.59	+21.75	+11.60	+23.22	+12.48
Chile (16)	187.23	-5.57	-2.89	-11.09	-5.59	-8.44	-4.31
Colombia (14)	150.61	-4.93	-3.17	-11.74	-7.23	-13.64	-8.30
Mexico (23)	81.91	+1.85	+2.31	+6.32	+8.36	+8.32	+11.30
Peru (14)	1,078.86	-46.75	-4.15	+11.06	+1.04	+9.91	+0.93
Latin America (112)	132.95	+1.40	+1.07	+8.23	+6.60	+9.81	+7.97
Europe							
Greece (18)	104.80	-0.49	-0.47	+8.44	+8.76	+6.83	+6.97
Portugal (20)	123.63	+0.54	+0.44	+7.17	+6.16	+7.17	+6.16
Turkey (26)	95.42	-5.51	-5.38	+9.87	+11.53	+12.62	+15.26
South Africa (32)	172.48	+3.58	+2.12	+18.20	+11.87	+19.10	+12.46
Europe (96)	135.73	+1.67	+1.25	+13.66	+11.19	+14.16	+11.66
Asia							
China (24)	48.31	-1.40	-2.98	+6.66	+17.40	+5.99	+14.85
Indonesia (32)	152.29	+0.60	+0.39	+11.76	+8.37	+15.65	+9.85
Korea (23)	130.82	+3.97	+3.13	-5.49	-4.03	-6.28	-4.59
Malaysia (24)	234.18	-2.01	-0.85	+8.03	+3.56	+6.82	+3.00
Pakistan (14)	79.90	+6.77	+9.26	+7.42	+10.23	+6.31	+8.57
Philippines (14)	292.55	+11.26	+4.01	+37.02	+14.49	+33.58	+12.98
Thailand (25)	270.65	+1.52	+0.57	+17.84	+7.06	+18.77	+7.45
Taiwan (31)	125.10	-2.05	-1.62	-3.76	-2.98	-5.72	-4.38
Asia (187)	210.74	+0.59	+0.28	+8.64	+4.25	+7.70	+3.79

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, January 26, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7168.25	4750.00	3185.35	4452.78
Albania	(Lek)	[illegible]	96.1000	64.4447	90.0867
Algeria	(Dinar)	80.8162	53.7699	36.0561	50.4054
Andorra	(French Fr)	7.5857	5.1204	[illegible]	4.8000
	(Sp Peseta)	190.088	126.475	84.8142	118.561
Angola	(Kwanza)	8555.08	5692.00	3817.06	5335.83
Antigua	(E Carib $)	4.0581	2.7000	1.8108	2.5311
Argentina	(Peso)	1.5028	0.9998	0.6703	0.9371
Armenia	(Dram)	604.2050	402.000	269.582	376.846
Aruba	(Florin)	2.6904	1.7900	1.2004	1.6780
Australia	(Aus $)	2.0538	1.3530	0.9073	1.2683
Austria	(Schilling)	15.7585	10.4858	7.0318	9.8297
Azerbaijan	(Manat)	6673.330	4440.00	2977.47	4162.17
Azores	(Port Escudo)	233.258	155.200	104.077	145.489
Bahamas	(Bahama $)	1.5030	1	0.6706	0.9374
Bahrain	(Dinar)	0.5668	0.3770	0.2528	0.3534
Balearic Is	(Sp Peseta)	190.088	126.475	84.8142	118.561
Bangladesh	(Taka)	60.8685	40.5000	27.1593	37.9658
Barbados	(Barb $)	3.0230	2.0113	1.3488	1.8855
Belarus	(Rouble)	18223.80	12125.0	8131.04	11366.5
Belgium	(Belg Fr)	46.0722	30.6545	20.5569	28.7369
Belize	(B $)	3.0060	2.0000	1.3412	1.8749
Benin	(CFA Fr)	769.570	512.040	343.375	480.000
Bermuda	(Bermudian $)	1.5030	1	0.6706	0.9374
Bhutan	(Ngultrum)	54.0512	35.9700	24.1215	33.7192
Bolivia	(Boliviano)	7.4395	4.9500	3.3195	4.6403
Botswana	(Pula)	4.2839	2.8659	1.9024	2.6594
Brazil	(Real)	1.4701	0.9782	0.6560	0.9170
Brunei	(Brunei $)	2.1297	1.4170	0.9502	1.3283
Bulgaria	(Lev)	110.831	73.7400	49.4501	69.1259
Burkina Faso	(CFA Fr)	769.570	512.040	343.375	480.000
Burma	(Kyat)	8.6468	5.7528	3.8578	5.3928
Burundi	(Burundi Fr)	391.347	260.375	[illegible]	244.085
Cambodia	(Riel)	3456.90	2300.00	1542.39	2156.08
Cameroon	(CFA Fr)	769.570	512.040	343.375	480.000
Canada	(Canadian $)	2.0761	1.3814	[illegible]	1.2950
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Special Drawing Rights January 25, 1996 Utd Kingdom [illegible] Utd States $1.45803 Germany DM2.15424 Japan Y156.882 European Currency Unit Rates January 26, 1996 Utd Kingdom [illegible] Utd States $1.26852 Germany DM1.86851 Japan Y135.038

Abbreviations: (a) Free rate; (m) Market rate; (o) Official rate; (p) Parallel rate (t) Tourist rate (ʟ) Currency fixed against the US Dollar (v) Floating rate (†) Venezuelan Official rate devalued on 11/12/95. Market rate derived from Brady bond trading. (§) Yugoslavian Dinar devalued on 28/11/95. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 0171 634 4365. To obtain a copy of this table by Fax from the Cityline service dial 0891 437001. Calls charged at 39p/minute cheap rate, 49p/minute at all other times. Friday, January 26, 1996

ATHENS STOCK EXCHANGE Jan 19th - Jan 26th 1996 — GREECE

ASE INDEX	980.24	P/E 95e (after tax)	12.5	GDP (USD bn) 95e	104.79
%Chg (Prev. Wk)	0.18	P/E 94 (after tax)	14.8	Per Capita Income (USD)	10,804
Yearly High	1003.6	EPS GROWTH (%) 95e	21.8	Inflation Rate (% Y.O.Y, December 95)	8.10
Yearly Low	898.44	P/CE 95e/94	8.5 / 10.7	12 Month T-bill (%, mid of January issue)	14.20
WEEKLY VOLUME (USD m)	272.81	P/BV 95e/94	2.6 / 2.3	1-Month Athibor (%)	13.96
%Chg (Prev. Wk)	10.10	Div. Yield (%) 95e/94	4.8 / 4.4	GRD-US$	246.10
1 Y Wk Avg. (USD m)	120.07			A.S.E. Market Capitalisation - 26/1/96 (USD bn)	17.71
				IPOs & Rights Issues (USD m Jan'95-29 Dec '95)	351.50

WORLD BOND MARKETS: This Week

NEW YORK — Richard Waters

The Federal Reserve's policy making committee meets on Tuesday and Wednesday amid a slew of mostly stale economic data delayed by the Washington shut-down. By the time more recent information hits the screens later in the week, the FOMC will already have decided whether to trim US interest rates further.

Wall Street seems convinced the economy is again slowing down fast, but remains less certain about the Fed's will to act: it is only a month since the last rate cut, and the absence of data has created an information vacuum. If no action is taken this week, then most expect the FOMC to cut the Fed funds rate more sharply – perhaps by 50 basis points – at its March meeting.

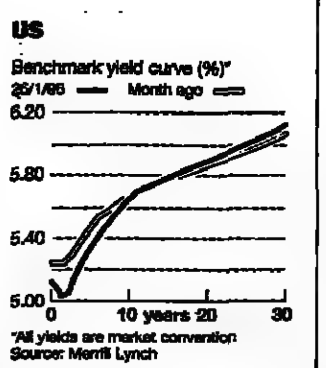
The latest employment figures, due on Friday, are expected to show little growth during January, with a survey by MMS International putting the increase in non-farm payrolls at 83,000 for the month. The severe winter in the North-east and weakness in retailing are likely to have slowed down job growth from the 151,000 of December.

January's National Association of Purchasing Management report, due Thursday, is expected to show a rise of 47 per cent, slightly lower than for December.

Older economic reports will include December's consumer price figures on Thursday, and producer price data on Wednesday.

US

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

LONDON — Martin Brice

Gilts seem set to follow international trends this week, with little significant domestic data due to be released. The minutes of the December monetary meeting are due on Wednesday, but since Mr Eddie George, governor of the Bank of England and Mr Kenneth Clarke, the chancellor, gave a full explanation at the time, the markets will be more interested in the minutes of January's meeting, which resulted in a surprise interest rate cut.

Thursday sees the Hemsworth by-election, which the ruling Conservatives are expected to lose. This may remind investors of the government's small majority, which may increase the political risk premium on gilts.

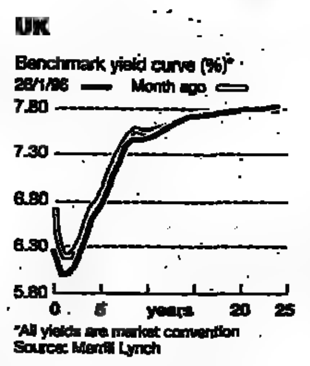
Mr Andrew Milligan at New Japan Securities said: "The spread between gilts and bunds is towards the top of its recent trading range and we would view 170 basis points as an opportunity to buy."

There may be a steepening of the yield curve due to expectations of increased volatility following uncertainties over European Monetary Union, said Mr Andrew Roberts at UBS.

He believes the five-year area may be boosted by a well-received auction on Wednesday, and said: "Scope for further out-performance of the very short end is limited, given it already prices in two 25 basis point rate cuts."

UK

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

FRANKFURT — Andrew Fisher

The German bond market's recent steady rise received a setback last week with the Bundesbank's announcement that M3 grew at a faster than expected annualised rate of 2.5 per cent in December.

It will await January's money supply data before deciding whether further action on interest rates is necessary – the discount and Lombard rates were last cut in mid-December – but the fact that last month's M3 showed a speedier growth rate has dampened market hopes of an early rate cut.

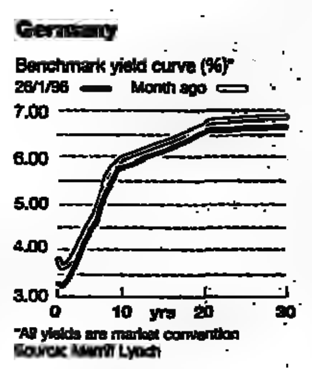
It did not eliminate them altogether, however. Goldman Sachs said it still expected another cut in the discount rate (now 3 per cent) "some time early in the second quarter".

Mr Stephen King, an economist at James Capel, said December money supply figures gave a misleading impression of economic activity and should not have serious implications for interest rates. "Special factors", not explained by Bundesbank, were one reason for faster M3 expansion, another being a slowdown in monetary capital formation.

With the steady fall in the securities repurchase (repo) rate – down a further 10 points to 3.55 per cent last week – and the weak economy, Mr King added: "There remains a good chance of a further discount rate reduction, possibly in the spring."

Germany

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

TOKYO — Emiko Terazono

Although low demand for government paper is expected to contribute to a sluggish 10-year bond auction this week, a large sell-off is unlikely since most institutional investors' profits are limited at current levels.

Heavy activity is unlikely to emerge unless November industrial production figures and unemployment data for December released this week indicate unexpectedly bad or good results.

Meanwhile, the debate over the liquidation of the country's ailing *jusen*, or housing loan companies, is likely to cap yields on the short end. With Y6,400bn in bad loans to the *jusen* likely to be written off by banks, the Bank of Japan is expected to keep short-term interest rates low to allow banks to continue to profit from a steep yield curve.

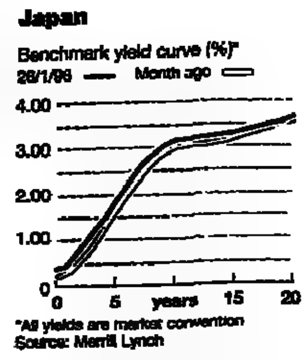
The central bank's easy monetary policy has helped banks to benefit from profits on bond holdings and yield differentials, and this has helped them to start writing off bad debt on their loan portfolios.

However, the *jusen* bail-out, which will include Y685bn of public money, may prove to be a negative for the long end.

"The medium and long-term areas of the curve are vulnerable to the threat of further JGB issues to pay for secondary losses on the housing loan companies' bad debts," says SBC Warburg in Tokyo.

Japan

Benchmark yield curve (%)*



*All yields are market convention
Source: Merrill Lynch

Government bonds

Europe's high-yielders hold their allure

High-yielding European bonds have been rallying for several months now, and have not lost their allure for investors – despite last weeks' bout of volatility typical of such markets.

The possibility of a delay to European Monetary Union is seen by some as adding to the attraction of Spanish and Italian bonds long-term, since these countries are seen as unlikely to meet the criteria for Emu by the deadline of 1999 but could do so a few years later.

Ms Phyllis Reed, European bond strategist at BZW, says: "A delay to Emu would probably lead to a knee-jerk reaction of a flight to quality, but there really is no reason to make such a move. The aim of a single currency is to have as many countries as possible. If you kept countries out, they would just be able to gain a competitive advantage by adjusting their currency."

She believes the possibility of Emu participation is "certainly not priced into Spain or Italy at the moment".

Spain is the more attractive investment to Mr Paul Meader, head of fixed income at Matheson Investment Management, which is underweight on Sweden, neutral on Italy, and overweight Spain. He says: "The underlying economic fundamentals look more favourable, and political commitment to Emu is a lot higher in Spain, but Italy is not even in the Exchange Rate Mechanism."

One worry for investors in Italian bonds this year will be the renewal of wages contracts that cover half of Italian workers, who have suffered considerable real wage erosion over the past three years, says Mr Keith Patton, fund manager with Fleming Investment Management. He believes the unions may accept only a marginal catch-up in incomes, in return for increased job security. He remains overweight on Spain and marginally overweight on Italy.

He says: "We are waiting out the political volatility as second-guessing the outcome could prove to be a costly exercise, but we see favourable fundamentals and feel comfortable with the market in the medium to long term." But he is underweight Swedish bonds as " the market got ahead of itself in terms of expectations of interest rate cuts".

High-yielding markets usually out-perform other markets in a rally and under-performed in a general retreat from bonds, but a survey by Lehman Brothers suggests this pattern may not be repeated.

Mr Mark Fox, chief European strategist at Lehman, says: "We think there is a good chance of a sell-off in all European bond markets in February. History suggests that whenever European bond markets sell off, high-yielders under-perform. Our opinion is that this time it won't happen. International fund managers are very overweight core European bonds and underweight high-yielding markets."

He says Lehman's regular monthly survey of investors, taken between Monday and Wednesday of last week and including 47 investors with $145bn in international fixed-income investments, suggests the fall in yields has been provided by domestic fund managers while international investors have had relatively small levels of participation.

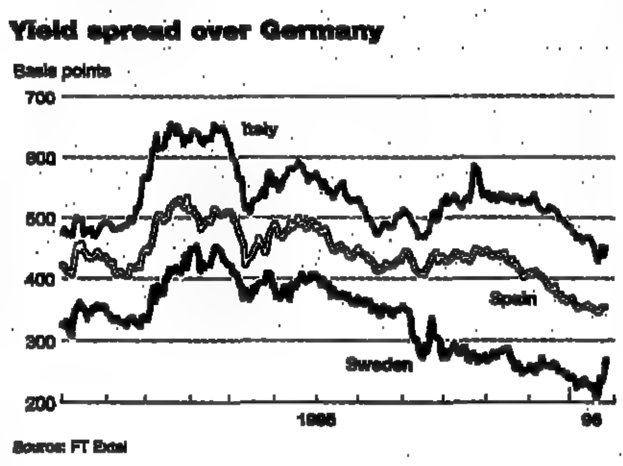
"I don't see how the high-yielders should sell off that much, since the international community has missed out on much of the rally," he says.

He adds that international funds have just reached neutral on Spanish bonds but are still below neutral on Italy and Sweden. He believes the yield spread of Spanish bonds over bunds could come in by 66 to 310 basis points in the next month, while on Italian bonds the spread could come in by 28 to 425 points and on Swedish bonds by 11 to 250 points.

Mr Patton says: "Fiscal austerity has become the order of the day, almost right across the globe, and while fiscal austerity is seen as fashionable, spreads will continue to tighten."

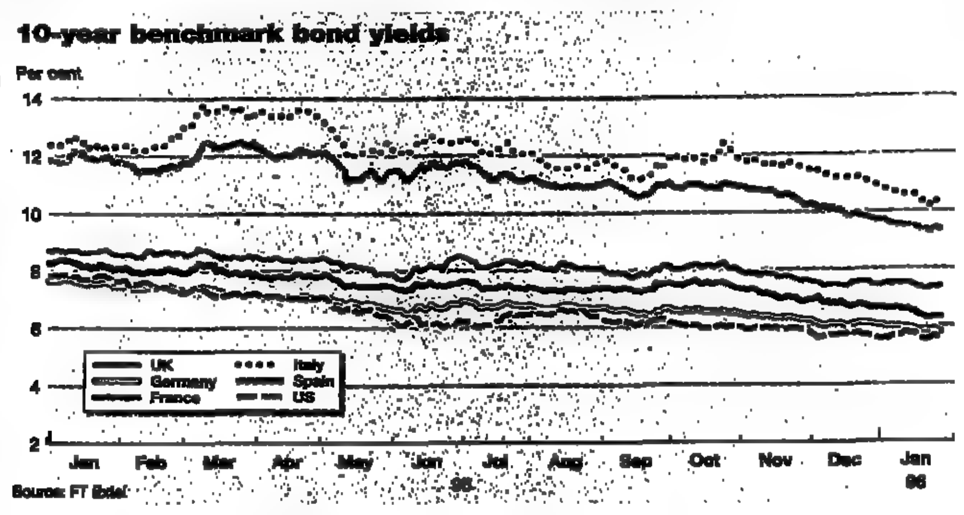
Martin Brice

Yield spread over Germany



Source: FT Extel

10-year benchmark bond yields



Source: FT Extel

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	5.25	0.50	3.00	5.60[1]	9.00	6.25[2]
Overnight	5.44	0.38	3.44	4.43	9.95	6.25
Three month	5.11	0.37	3.35	4.48	9.85	6.28
One year	5.08	0.62	3.20	4.54	9.34	6.06
Five year	5.37	1.25	4.61	5.55	9.90	6.92
Ten year	5.85	2.97	5.89	6.41	10.44	7.45

(1) France-Repo rate. (2) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	119-18	120-17	+0-30	120-20	118-18	407,282	337,407
Jun	119-06	120-03	+0-30	120-03	118-05	1,452	28,579
Sep	118-09	119-18	+0-30	119-18	117-25	260	8,085

International bonds

Crédit Foncier gains slight respite

A lifeline in the form of a large credit facility for Crédit Foncier de France, the troubled specialist property institution, granted some respite to its battered bonds last week.

But dealers expect the debt securities of this large eurobond issuer to continue trading erratically, buffeted by news of ongoing restructuring and talk of a possible takeover.

"The bonds have got way oversold," said a senior eurobond trader in London. "For institutional investors with in-house credit analysts who can track the market closely, I think they're a buy – though I wouldn't recommend them to smaller investors because trading will remain quite volatile."

Sharp downgrades in CFF's credit rating in the last few months have sent its bond prices tumbling and yield spreads have widened sharply.

The resulting increase in long-term borrowing costs has kept CFF out of the bond market and traders say it may be months before it reappears – especially since Caisse des Depots et Consignations extended it a FFr25bn 14-month loan facility two weeks ago.

The slump in CFF's has several causes: huge write-offs in 1994 resulting from the country's commercial property crisis; the loss, last September, of CFF's quasi-monopoly over the distribution of state-subsidised housing loans and the resulting increase in competition with other banks.

To overcome its problems, CFF has announced a radical restructuring, but doubts remain whether it can pull it off – not least because of vehement union opposition.

As a result, Moody's in late October slashed CFF's long-term credit rating by three notches to A2, and two weeks ago lowered it another two grades to Baa1, the third-lowest investment-grade rating. Standard & Poor's has cut CFF's rating to single-A from double-A since last June.

Some market participants say the rating agencies have overdone the doom and gloom. "They lagged events, and then panicked investors with their sudden and, I think, excessive downgrades," said one dealer.

Moody's Baa1 rating has been especially detrimental as many investors are not allowed to hold bonds with a rating below single-A, he says. "Even if institutional investors are happy to hold them, they have been forced by their shareholders to sell at any price."

Faced with a wave of selling, brokers have bid prices even lower to avoid taking huge volumes of unwanted bonds on to their books. There have been some purchases by investors swapping CFF's fixed-rate bonds into floating-rate assets, but most have held off, waiting for the bloodletting to stop.

Yield spreads over government bonds have widened sharply in recent months – more than CFF's ratings warrant, dealers say. Generic five-year French franc bonds which would have yielded around 35 basis points over OATs before the crisis now trade at around 125 basis points over; 10-year spreads have risen from some 45 basis points over OATs to 150, says one trader.

While a reversal of fortunes isn't imminent, many observers do see a ray of light on the horizon.

"The provision of the FFr25bn debt facility by CDC, a state-owned institution, reinforces our expectation of tacit government support," said a credit analyst at a large European bank. "We do not expect further deterioration in Foncier's credit quality."

The market also appears to have ignored the fact that a cross-default provision exists between CFF's state-guaranteed and its non-guaranteed bonds. This means that if CFF were to default on a non-guaranteed issue, all its bonds would go into default and the government would have to repay well over FFr50bn of guaranteed paper, ripping a huge hole into its budget deficit.

"This increases the likelihood of government support for CFF, affording investors with an added comfort level," said another credit analyst.

Conner Middelmann

NEW INTERNATIONAL BOND ISSUES

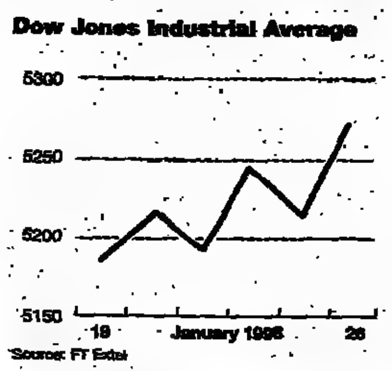
Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Mars Engineering Corp.(a)φ	100	Feb.2000	2.25	100.00	-	-	Daiwa Europe
Takashimaya Cayman Fin.(c)φ	240	Feb.2000	3.50	100.00	-	-	Nomura International
Federal Nat.Mortgage Assoc.	1bn	Feb.2006	5.875#	99.891R	5.890	+26(5⅞%-05)	Deutsche/Merrill Lynch
Goldman Sachs Group(d)‡	150	Feb.2001	(d1)	99.90R	-	-	Goldman Sachs Intl.
BNL, London Branch‡	315	Feb.2003	(e)	100.085R	-	-	CS First Boston
Bankers Trust NY Corp.(f)‡	300	Feb.2001	(f1)	99.90R	-	-	PaineWebber/SBCW
National Bank of Canada(g)‡	200	Feb.2001	(g1)	99.915R	-	-	Goldman Sachs Intl.
ICICI	150	Feb.2003	7.125#	99.404R	7.235	+170(6¼%-03)	JP Morgan Securities
Salomon(k)‡	150	Feb.1999	(k1)	99.656R	-	-	Salomon Brothers Intl.
Pallberg Intl. Finance(m)§	130	Feb.2001	3.50	100.00	-	-	Jardine Fleming
World Bank★	100	Feb.1999	4.55	100.00	4.550	-	Kankaku (Europe)
Dresdner Finance	300	Feb.2002	[illegible]	99.837R	5.858	+24(5¼%-01)	DKB/Dresdner/Merrill
SBC Jersey Branch	250	Feb.2001	3.00	99.82R	5.376	flat(5¼%-01)	SBC Warburg
BNG	200	Feb.2001	3.00	99.80R	5.376	flat(5¼%-01)	ABN Amro/P Webber
CSFP(t)	50	Feb.2000	2.00	101.25	-	-	CS First Boston
Student Loan Mktg.Assoc.(x)	500	Feb.2001	5.88#	100.00R	5.880	+48(5¼%-01)	Lehman/M.Stanley
D-MARKS							
Helaba International Finance	1bn	Feb.2006	6.00	99.545R	5.769	+23(6%-06)	IBJ (Deutschland)
Trans Power Finance	150	Feb.2003	5.50	99.547R	5.580	+15(7⅛%-03)	Citibank
DSL Finance	1bn	Feb.2006	6.00	99.87R	6.018	+23(6%-06)	Commerzbank/SocGen
Norddeutsche Landesbank‡	100	Feb.2001	(n)	100.00	-	-	UBS Germany
Bayerische Landesbank	1.5bn	Feb.2006	6.00	99.53R	6.064	+25(6%-06)	BayernLB/CSFB/IBJ
SGZ Bank	300	Feb.2003	5.75	101.80	5.434	-	ABN Amro/Lehman
Spintab‡	200	Feb.1998	(u)	99.954	-	-	SBC Warburg
LW Rentenbank‡	100	Mar.2006	(v)	95.50R	-	-	Morgan Stanley Bank
YEN							
EBRD★	20bn	Feb.2011	3.38	100.40	3.326	-	Nomura International
SWISS FRANCS							
Daiwabo Info. System(b)§★	70	Mar.2000	0.375§	100.00	-	-	Nomura Bank (Switz.)
STERLING							
Depfa Bank(s)	100	Dec.1998	6.50	101.075	-	-	HSBC Markets
Republic of South Africa	100	Feb.2006	9.375	99.284R	9.489	+190(7½%-06)	JP Morgan/SBCW
Westpac Banking Corp.‡	250	Feb.1998	(q)	99.981	-	-	BZW
Spintab‡	60	Feb.1998	(o)	100.00	-	-	Sanwa International
Abbey Natl.Treasury Services‡	75	Feb.1998	(w)	100.00R	-	-	BZW
GUILDERS							
Aegon(k)	450	undated	7.125	100.00R	7.125	+90(l)	ABN Amro Hoare Govt.
Bayerische Vereinsbank	300	Feb.2002	5.25	99.63R	5.323	+20(6¼%-02)	ABN Amro Hoare Govt.
FRENCH FRANCS							
Oesterreichische Kontrollbank	2bn	Feb.2006	6.375	99.60R	6.430	+12(7¼%-06)	Banque Paribas
Kingdom of Sweden	3bn	Feb.2004	6.25	100.00R	6.250	+12(6¾%-04)	[illegible]/Merrill Lynch
Argentaria Global Finance	2.5bn	Feb.2006	6.50	99.18R	6.615	+28(l)	CDC
Lyonnaise des Eaux(r,s)§	3bn	Jan.2006	4.00	(r)	-	-	Crédit Lyonnais
LUXEMBOURG FRANCS							
LB Rheinland-Pfalz, Lux.	2bn	Mar.2002	5.50	102.50	5.007	-	BGL/Kredietbank
Banque Internationale à Lux.	2bn	Mar.2002	5.50	102.45	5.017	-	BIL
De NIB(s)	2.5bn	Feb.2002	5.50	102.25	5.06	-	BIL
Kredietbank Luxembourg	2bn	Mar.2006	6.375	102.75	6.001	-	Kredietbank Lux.
Crédit Local de France(l)	2bn	May.2003	5.75	102.30	5.35	-	BIL
PepsiCo(s)	2bn	Dec.2001	5.625	102.75	5.07	-	BGL/BIL
ITALIAN LIRE							
European Inv'ment Bank(j)‡	300bn	Mar.2001	(j1,z)	100.15	-	-	(j2)
AUSTRALIAN DOLLARS							
Treasury Corp. of Victoria(l)★	250	Mar.1998	5.00#	97.20	-	-	Nikko Europe
ABN Amro Australia	100	Mar.2000	7.50	101.075	7.180	-	ABN Amro Hoare Govt.
PESETAS							
Kingdom of Sweden	15bn	Feb.2000	8.625	101.511	8.167	-	Argentaria/HSBC Mkts.
Inter-American Dev. Bank	10bn	Feb.2001	8.625	101.[illegible]	8.302	-	BSN/SBC Warburg
Finnish Export Credit	10bn	Feb.1999	8.675	101.34	8.154	-	BSN
SOUTH AFRICAN RAND							
Inter-American Dev. Bank	250	Feb.2001	13.00	101.15	12.67	-	Deutsche Morgan G'fell
Deutsche Finance(Neths)	250	Feb.2001	13.00	101.15	12.67	-	Deutsche Morgan G'fell
DANISH KRONER							
De NIB(s)	400	Dec.2000	5.75	101.71	5.344	-	Kredietbank
SWEDISH KRONOR							
Nordic Investment Bank	500	Feb.2001	7.50	101.245	7.195	-	SHB
Swedish Export Credit	500	Mar.2000	7.75	101.325	7.356	-	ABN Amro Hoare Govt.
Vattenfall Treasury	500	Feb.2001	7.875	101.40	7.529	-	Deutsche Morgan G'fell
CZECH KORUNA							
Swedish Export Credit	2bn	Feb.1997	10.00	100.34R	9.627	-	Bayerische Vereinsbank
NEW ZEALAND DOLLARS							
SocGen Australia	100	Mar.1999	7.25	100.265	7.149	-	Hambros Bank

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. φWith equity warrants. ★Unlisted. #Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: $10,000 +2 wts. Exercise price: Y8,098. FX: 106.70Y/$. b) Conversion price: Y2,799. FX: 89.54Y/SFr. Callable on 30/3/98 at 102¼% falling ½%pa. Callable, subject to 150% hurdle, from 30/9/96. Puttable on 30/3/98 at 102¼%. Revision of conv price effective 28/4/97 & 27/4/98. c) Denom: $10,000 +2 wts. 300 shrs/wrt. Ex price: Y1,712. d) $300m launched 17/1/96 increased to $450m. Callable on coupon dates from Feb.98 at par. e) 6-mth Libor +30bp. f) Callable on coupon dates from Feb.99 at par. f1) 3-mth Libor +20bp. g) Callable on coupon dates from Feb.99 at par. g1) 3-mth Libor +10bp. h) Callable on 4/3/11 and every 10 yrs at par. If not called, coupon is reset at 85bp over 10-yr DSLs. Includes Fl100m increase at 100⅛R. i) Over interpolated yield. j) L700bn launched 10/1/96 was increased to L1000bn. j1) 3-mth Libor -30bp. j2) Joint books: BCI/BNL/Cariplo/San Paolo/JP Morgan. k) Callable on coupon dates from Feb.98 at par. k1) 3-mth Libor +⅞%. l) Long 1st coupon. m) Exchangeable into Regal Hotels shares at HK$2.417. FX: 7.735HK$/$. Callable from 8/2/99 subject to 130% hurdle. Redemption premium at maturity: 121.85%. Greenshoe: 15%. n) 4.10% for 1st yr and 6-mth Libor +25bp thereafter; resets limited to 25bp rise and cannot fall. o) 3-mth Libor flat. p) Oeffentliche Pfandbrief. q) 3-mth Libor +2½bp. r) Issue price: FFr320 per bond. Conversion ratio: 1:1. Callable from 1/1/01. Greenshoe: FFr450m. s) Short 1st coupon. t) Convertible into gold at $425 per ounce. Cash settled. u) 6-mth Libor flat. v) 11% - 6-mth Libor. w) 3-mth Libor +15bp for 1st yr, 3-mth Libor flat or 7%pa fixed thereafter at issuers option. x) Callable on coupon dates from 6/2/98 at par. Note: Yields are calculated on ISMA basis.

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Focus shifts from reports on earnings



For the past two weeks corporate earnings have driven trading on the equity market, but this week interest rates should be the focus.

Most large companies have now reported last year's results and tomorrow the Federal Reserve's Open Market Committee begins a two-day meeting to consider monetary policy.

Betting is about even as to whether the Fed will ease monetary policy. Recent data show the economy to be slowing, but it was only just over a month ago that the Fed lowered interest rates by 25 basis points to 5.5 per cent.

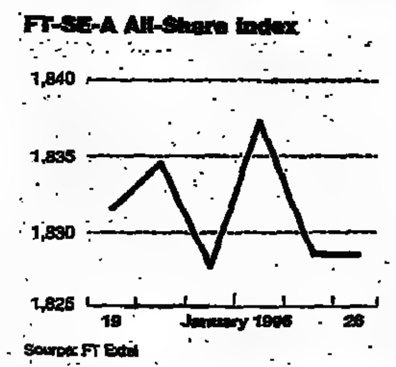
Salomon Brothers and Donaldson, Lufkin & Jenrette think the Fed will cut rates by 25 basis points because of the drop off in economic activity but Mr David Munro of High Frequency Economics disagrees that interest rates are overly restrictive, and he is wagering against an ease.

The most important data this week will be Friday's figures on January employment, which analysts expect to be weaker. The consensus is that 83,000 non-farm jobs were added to the US economy, down from December's 151,000.

Also important will be figures on manufacturing activity from the National Association of Purchasing Management. Economists expect more slowing in that sector and the median estimate is that the NAPM index will have slipped to 46.4 per cent from 47.3 in December.

LONDON — Steve Thompson

Looking abroad for signs of lower rates



Investors in the UK equity market will this week be looking overseas for further signs that global interest rates are still on the downward path.

It has been the prospect of reductions in international rates that has helped drive global markets, including London, sharply better in recent weeks. Last week saw the FT-SE 100 hit a record closing high on Wednesday and stage numerous unsuccessful attempts to breach its previous intra-day peak of 3.767.4. Wall Street and Frankfurt also registered records.

The US Federal Reserve Open Market Committee meets on Tuesday and there has been speculation about another discount rate cut. "US rates are only 50 basis points below their peak in January 1995 and there is plenty of scope for the authorities to relax policy," said broker SGST last week. HSBC Markets agrees, saying "the odds favour a 25 basis point cut".

What investors can do without, however, is any more profit warnings, like those from the chemicals and food retailing sectors, which damaged further the previous glamour rating enjoyed by J. Sainsbury.

Another potential trouble spot could be the minutes of last month's meeting between Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governor of the Bank of England, which preceded the 25 basis points cut in UK interest rates. Renewed conflict between the two would not be well received in the market.

OTHER MARKETS

FRANKFURT

Tomorrow's results from Thyssen were indicated ahead of the event, says Mr Theo Kitz at Merck Finck in Düsseldorf, *writes William Cochrane.*

But among progress reports from group subsidiaries, a surprisingly cautious outlook at Thyssen Stahl, badly affected in the first quarter of 1995–96 by overstocking at steel wholesalers, has convinced Mr Kitz to reduce his profits estimate to a flat DM700m for Stahl in the current year, and his 1995-96 earnings forecast from DM33 to DM31 a share.

Goldman Sachs expects Wednesday to bring a 32 per cent rise in fourth-quarter revenues from SAP, the computer software group which was such an outperformer in 1995.

This compares with prior quarterly gains of 72, 64 and 41 per cent but, as the broker points out, the deceleration comes from a high base in 1994's fourth quarter, which saw a 87 per cent gain.

Goldman expects net profits to rise 41 per cent; SAP, it says, has been deliberately slowing its hiring policy, as it has achieved critical mass in key areas.

AMSTERDAM

The stock market is expected to continue trading at or above recent all-time highs, in spite of expectations that the corporate reporting season, due to begin in earnest next month, will produce a mixed picture on earnings, *writes Ronald van de Krol.*

Kempen & Co, the Amsterdam-based merchant bank, expects more downgradings to emerge but believes this will be outweighed by further falls in interest rates. All in all, the AEX index, which rose 17 per cent in 1995 and hit a new high of 511.64 points last Monday should reach 525 points in mid-year 1996.

However, an upward trend in interest rates in the second half will produce some weakness in equities later in the year, keeping the AEX index in a range of 515 to 530 in the third and fourth quarters, the bank said.

This week the market will continue to watch Fokker, even though the stock has been a speculative issue for years and serious, long-term investors moved out of it long ago. Still, the shares seemed to defy gravity after the company was forced to seek protection from creditors last Tuesday.

The shares, worthless if Fokker goes bankrupt, gave up half of their value to fall to around Fl 3.00. But under the circumstances the shares, consigned by the bourse authorities to the "non-official" section, were considered to be doing fairly well, indicating that some people are prepared to bet that the 77-year-old company, a veteran of financial crises, will pull out of its tailspin.

MILAN

With the political outlook still extremely unclear, investors at least have Fiat's annual letter to shareholders to look forward to after the market closes on Wednesday.

Fiat's shares, sharply higher in the early months of last year, subsequently took a downward track as many analysts reassessed earlier, over-optimistic estimates.

Mr Nicholas Potter at Credito Italiano International expects Fiat will this week emphasise the weakness in the recovery of European car markets and believes the tone of this year's letter will probably be significantly more cautious than last time.

Nonetheless, he is forecasting 1995 group turnover will rise to L76,500bn, from L65,800bn in 1994, net operating margin of L3,600bn against L2,760bn, and pre-tax profit of L3,800bn against L1,860bn.

STOCKHOLM

Fourth-quarter figures from Electrolux tomorrow mark the start of the reporting season. UBS advises caution on cyclicals, sensing that the downgrading cycle has further to go. Not only does the bank expect 1995 results, on aggregate, to be disappointing but that trade statements will be resoundingly bearish.

HONG KONG

With no sign of an end to the flood of foreign money pouring into the market, brokers expect prices to hit new highs this week, *writes Louise Lucas.*

The Hang Seng index closed last week at 11,111.87, its highest level in two years and within sight of the all-time high of 12,201. Turnover has remained consistently high, at two or three times the levels witnessed through much of last year. Given this liquidity, brokers say any consolidation or profit-taking will be easily absorbed.

The market traditionally staged a rally into the Chinese New Year, which this year begins on February 19. A belief that the property market may have bottomed out, and expectations that China will ease its austerity measures, unleashing more funds into the territory, are also helping sentiment.

TOKYO

Further developments in the housing loan company bail-out are expected to affect investor confidence, *writes Emiko Terazono.*

Behind-the-scenes negotiations between banks and the ministry of finance continued last week, but the opposition New Frontier Party is expected to try to discredit the government's bail-out scheme, which includes a Y685bn infusion of taxpayers' money.

Turmoil in parliament over the solution could prompt a sell-off of bank stocks, which have lent heavily to the housing loan companies.

The liquidation plan has already caused a public outcry, and the NFP is trying to foil the government's attempts to obtain parliamentary approval of the liquidation of the seven housing loan companies.

Compiled by Michael Morgan

International offerings

Railtrack issue will have streamlined syndicate

SBC Warburg will this week unveil a slim-line syndicate structure as part of its strategy for the privatisation of Railtrack, the company which has taken over British Rail's track, signalling and stations.

In May, the UK government intends to sell at least 51 per cent of Railtrack, which could have a stock market valuation of between £1.5bn and £2bn, depending on the amount of debt left with the company.

The government has said that at least one-third of Railtrack shares will be reserved for retail investors, in line with past privatisations. The rest will be sold to institutional investors at home and abroad through a book-building process. There will be a 144a offering in the US and a private placement in Japan, but the size of the regional tranches will not be pre-determined.

The modest size of Railtrack's syndicate will be welcomed by players in the international equity markets, who have been pressing for more streamlined selling groups.

In spite of a few aberrations – such as the Indonesian government's disastrous decision to appoint eight global co-ordinators for PT Telkom – the size of Railtrack's syndicate reflects a gradual process away from overcrowded structures. The syndicate for the forthcoming $250m privatisation of Union Bank of Norway will also bear this out.

In the UK, the trend towards smaller syndicates started with BT3, which was the first offering to use global managers, and it continued with the privatisation of the Gencos.

Some other governments have also followed suit, such as Italy, which had a svelte syndicate for Eni's privatisation considering the deal's size.

In France too, syndicates have shrunk. About 50 banks participated in the Elf share offering in 1994 while the syndicate for Pechiney's privatisation last year was about half the size.

The Railtrack offering is likely to have just three global managers, including SBC Warburg, which will be able to sell anywhere in the world, supported by six regional co-managers who will not be allowed to sell into the UK.

SBC Warburg is expected to announce the global managers this week but the identity of the co-managers will not be revealed for a few weeks.

The benefits of a small syndicates are many, bankers say. In the old-style structures with as many as 150 banks, banks were constantly tripping over each other and those in junior positions found it difficult to achieve many sales unless they had a particular regional or investor niche. As a result, participating in large syndicates was often barely profitable.

A small syndicate should provide greater incentives for members to earn a greater portion of the fees. At the same time, their performance will be more open to scrutiny. The task of the global co-ordinator of managing the offering and briefing the syndicate should also be made easier.

Another advantage of a small syndicate is that there should be greater access to the big institutional investors. In many offerings, junior syndicate members are prevented from calling their biggest clients because their names are invariably on the so-called "exempt" lists drawn up by the global co-ordinators. The designation of selling commissions by investors should also become more transparent.

In the case of Railtrack, one of the more controversial of the UK government's privatisations, a small syndicate should also enable the global co-ordinator to keep a lid on any negative rumours which could harm the offering.

One story doing the rounds in London is that the real reason why the syndicate is small is that several banks were not that keen to be in the deal because of the politics associated with Railtrack.

However, sources close to the offering said of 45 banks invited to make submissions, 35 banks responded positively, with 16 pitching to be global managers. Of the 16, three said they would not want to be a co-manager if they failed to be appointed as a global manager.

Statements by the opposition Labour Party about rail privatisation and fears that a future Labour government could change the system put in place for Railtrack, thus harming its profitability, are the most likely issues which could hamper its flotation.

Another point which must be resolved before the flotation can go ahead is how much debt the new company will take on.

Analysts say the present level of debt of £1.7bn would be too high against against £1.5bn worth of shareholder funds. Railtrack hopes to take on just £500m of debt but the government would want to leave in a higher amount to maximise proceeds of the privatisation.

Railtrack's earnings track record of little over one year could also be a drawback and analysts say they are having difficulty in projecting future earnings. "It's a finger-in-the-air job at this stage," one analyst said. A further question is whether a reversal in the long-term decline in passengers is possible.

However, in recent weeks a great deal more information about the company's revenues and its regulatory environment has been made public. For example, more than 90 per cent of Railtrack's £2.3bn of revenues comes from track access fees paid by the train operating companies. These are backed by subsidies guaranteed for the life of their franchises, which will run for between seven and 15 years.

Another positive piece of news was that Railtrack, which will become one of the biggest quoted property landlords, would be allowed to keep 75 per cent of its property profits.

Analysts say the initial attraction for investors will be the likely yield on the shares of 6 to 7 per cent, in line with other regulated utilities. But, they say, Railtrack's real potential lies in the management's ability to boost profitability through cutting its £1.9bn cost base, which could result in an upside of 20 to 30 per cent for investors.

Antonia Sharpe

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

[illegible]			

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

[illegible]			

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jan 26 / Sch)

BELGIUM/LUXEMBOURG (Jan 26 / Frs.)

CZECH REP (Jan 26 / Korun)

DENMARK (Jan 26 / Kr)

FINLAND (Jan 26 / Mka)

FRANCE (Jan 26 / Frs.)

GERMANY (Jan 26 / Dm.)

GREECE (Jan 26 / Drachma)

ITALY (Jan 26 / Lire)

NETHERLANDS (Jan 26 / Fls.)

NORWAY (Jan 26 / Kroner)

POLAND (Jan 26 / Zloty)

PORTUGAL (Jan 26 / Escudo)

SPAIN (Jan 26 / Pts.)

SWEDEN (Jan 26 / Kronor)

SWITZERLAND (Jan 26 / Frs.)

TURKEY (Jan 26 / Tk Lira)

PACIFIC

JAPAN (Jan 26 / Yen)

AUSTRALIA (Jan 26 / Aust$)

HONG KONG (Jan 26 / H.K.$)

INDONESIA (Jan 26 / Rupiah)

MALAYSIA (Jan 26 / MYR)

NEW ZEALAND (Jan 26 / NZ $)

SINGAPORE (Jan 26 / S$)

SOUTH KOREA (Jan 26 / Won)

TAIWAN (Jan 26 / TW $)

THAILAND (Jan 26 / Baht)

NORTH AMERICA

CANADA

TORONTO (Jan 26 / Can $)
4 pm close

MONTREAL (Jan 26 / Can $)
4 pm close

AFRICA

SOUTH AFRICA (Jan 26 / Rand)

INDICES

	Jan 26	Jan 25	Jan 24	1995/96 High		Low	
Ireland							
ISEQ Overall(4/1/88)	2319.30	2327.08	2311.83	2327.08	22/1/96	1813.59	23/1/95
Italy							
Banca Comm Ital(1972)	601.87	610.93	615.48	688.54	10/2/95	547.79	5/12/95
MIB General(2/1/96)	1020.0	1036.0	1044.0	1044.00	24/1/96	982.00	15/1/96
Japan							
Nikkei 225(16/5/49)	20683.84	20414.89	20312.74	[illegible]	5/1/96	14485.49	3/7/95
Nikkei 300(1/10/82)	299.14	296.49	294.78	307.98	5/1/96	222.28	13/6/95
Thailand							
Bangkok SET(30/4/75)	1378.15	1393.31	1378.30	1472.04	10/7/95	1135.89	16/3/95
Turkey							
Istanbul Cmp.(Jan 1986)	46691.9	47361.7	47638.4	54889.90	21/4/95	24844.30	23/1/95
WORLD							
MS Capital Intl$(1/1/70)	730.7*	731.9	731.5	743.90	5/1/96	668.21	23/1/95
CROSS-BORDER							
Eurotrack 100(26/10/90)	1536.40	1543.95	1540.68	1544.82	19/1/96	1222.41	13/3/95
Euro Top-100(26/6/90)	1385.25	1385.97	1383.58	1386.97	25/1/96	1117.94	9/3/95
JCapeDrpea(31/12/88)	(c)	368.53	365.87	368.63	25/1/96	282.97	23/1/95
MG Emrgs Emrg(7/1/92)	157.80	158.82	158.98	190.31	23/1/96	117.15	10/3/95

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ CAC-40 (FFr200 x index)							
Jan	1946.0	1949.5	+21.5	1971.0	1936.0	22,758	28,834
Feb	1954.0	1958.5	+22.0	1979.0	1944.5	4,569	7,544
■ DAX							
Mar	2455.0	2458.0	+8.0	2481.0	2435.0	22,324	-
Jun	2466.5	2469.5	+5.0	2471.0	2447.5	778	-

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
■ OMX							
Jan	1344.00	1333.00	−10.00	1344.00	1333.00	1,055	74,923
Feb	1348.50	1335.50	−16.50	1350.00	1329.00	4,054	10,290
■ SOFFEX							
Jan	3203.2	3169.5	−26.5	3212.0	3168.0	11,621	13,522
Feb	3199.0	3193.5	−58.0	3199.0	3170.0	19	1,298

** Sat Jan 20: Taiwan Weighted Price 5037.25; Korea Comp Ex 842.72. Base values of all indices are 100 except; Australia All Ordinary and Mining – 500; Austria Traded, 865.20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Jan 26 - 2449.71 +12.08.

US INDICES

Dow Jones	Jan 26	Jan 25	Jan 24	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5271.75	5216.53	5242.84	5271.75 (26/1/96)	3832.08 (30/1/95)	5271.75 (26/1/96)	41.22 (2/7/32)
Home Bonds	108.79	108.74	108.74	108.89 (22/1/96)	93.63 (3/1/95)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	1906.55	1912.04	1930.81	2082.11 (5/12/95)	1473.19 (3/1/95)	2082.11 (5/12/95)	12.32 (8/7/32)
Utilities	225.18	226.53	225.81	229.81 (24/1/96)	183.93 (3/1/95)	229.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5298.78 (5260.45) Low 5187.21 (5173.84) (Theoretical♦)
Day's high 5276.44 (5249.71) Low 5206.36 (5209.61) (Actual♦)

Standard and Poors	Jan 26	Jan 25	Jan 24	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	621.62	617.03	618.95	621.69 (13/12/95)	459.11 (3/1/95)	621.69 (13/12/95)	4.40 (1/6/32)
Industrials♥	728.79	723.81	727.76	731.85 (13/12/95)	546.28 (3/1/95)	731.85 (13/12/95)	3.62 (21/6/32)
Financial	62.31	61.86	61.86	63.86 (6/12/95)	41.64 (3/1/95)	63.86 (6/12/95)	8.64 (1/10/74)
NYSE Comp.	332.84	330.55	331.72	332.84 (26/1/96)	250.73 (3/1/95)	332.84 (26/1/96)	4.46 (25/4/42)
Amex Mkt Val	543.24	541.84	537.51	553.88 (12/9/95)	433.12 (6/1/95)	553.88 (12/9/95)	29.31 (9/12/72)
NASDAQ Cmp	1040.96	1035.95	1043.46	1069.79 (4/12/95)	743.58 (3/1/95)	1069.79 (4/12/95)	54.87 (31/10/72)

■ RATIOS

	Jan 19	Jan 12	Jan 5	Year ago
Dow Jones Ind. Div. Yield	2.28	2.33	2.28	2.77
	Jan 24	Jan 17	Jan 10	Year ago
S & P Ind. Div. yield	1.95	2.01	2.02	2.43
S & P Ind. P/E ratio	18.96	18.42	18.50	18.90

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron	10,948,000	34¾	-1¼
Niagara Mhk	6,326,700	9½	+½
EMC	6,266,400	19¾	–
Am Express	5,488,100	43⅛	+2⅜
Citicorp	5,322,200	70⅜	-⅜
Telefonos	4,168,500	34	+½
Compaq	3,632,200	46¼	-¾
Loral	3,242,600	45½	+¼
Exide	3,201,000	33⅝	-14⅝
AT & T	2,996,000	64⅝	+⅛

■ TRADING ACTIVITY

● Volume (million)

	Jan 26	Jan 25	Jan 24
New York SE	384.415	445.351	475.899
Amex	20.136	28.953	24.890
NASDAQ	(u)	600.379	607.393
NYSE			
Issues Traded	3,071	3,073	3,101
Rises	1,259	1,028	1,471
Falls	1,020	1,269	889
Unchanged	793	776	741
New Highs	108	139	168
New Lows	23	18	24

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Mar	619.05	624.15	+5.15	624.75	617.20	70,208	188,520
Jun	623.20	629.75	+5.20	630.35	623.00	1,715	7,276
■ Nikkei 225							
Mar	20490.0	20750.0	+270.0	20800.0	20350.0	18,712	150,676
Jun	20460.0	20710.0	+180.0	20710.0	20390.0	143	22,835

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Friday, January 26, 1996

	Stocks Traded	Closing Prices	Change on day
Kyokuyo	19.7m	770	+76
Japan Paper Ind	8.7m	1060	+105
Takara Shuzo	7.9m	1280	+70
Mitsubishi Matl	6.3m	582	+22
Koa Oil Co	6.0m	1360	-30
Howa Machinery	5.9m	502	+67
Nippon Formula F	4.9m	609	-11
Sakai Ovex	4.3m	744	+4
Nippon Kakoh Sei	4.0m	685	+46
Nippon Conlux	3.9m	1220	+120

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995/96, except Toronto & Montreal (daily). § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jan 26		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.7398	+0.0342	522 - 669	15.8310	15.7221	15.7181	3.3	15.6721	2.2	-	-	106.1
Belgium	(BFr)	46.0722	+0.098	351 - 093	46.2840	45.9880	45.9572	3.0	45.7522	2.8	44.9122	2.5	108.4
Denmark	(DKr)	8.6646	+0.0162	597 - 694	8.7000	8.6487	8.6508	1.9	8.6258	1.8	8.5261	1.6	109.3
Finland	(FM)	6.8482	-0.0246	424 - 540	6.9330	6.8030	6.8438	0.8	6.8357	0.7	-	-	85.9
France	(FFr)	7.6957	+0.007	914 - 000	7.7269	7.6780	7.6839	1.8	7.6653	1.6	7.5897	1.4	108.5
Germany	(DM)	2.2412	+0.0061	402 - 422	2.2517	2.2351	2.2357	2.9	2.226	2.7	2.1936	2.6	110.5
Greece	(Dr)	370.876	+1.032	502 - 250	371.895	369.215	-	-	-	-	-	-	65.8
Ireland	(I£)	0.9643	+0.0001	634 - 652	0.9671	0.9629	0.9634	1.1	0.962	1.0	0.958	0.7	97.8
Italy	(L)	2409.26	-1.66	810 - 063	2427.94	2405.20	2418.31	-3.5	2429.46	-3.3	2484.36	-3.1	72.8
Luxembourg	(LFr)	46.0722	+0.098	351 - 093	46.2840	45.9880	45.9572	3.0	45.7522	2.8	44.9122	2.5	108.4
Netherlands	(Fl)	2.5103	+0.0057	083 - 122	2.5223	2.5037	2.5031	3.4	2.4907	[illegible]	2.4406	2.8	108.5
Norway	(NKr)	9.8143	+0.0157	071 - 214	9.8509	9.7985	9.8042	1.2	9.7827	1.3	9.7015	1.1	98.6
Portugal	(Es)	[illegible]	+0.908	113 - 403	234.922	231.830	233.883	-2.2	234.588	-2.3	-	-	95.3
Spain	(Pta)	190.086	+0.824	991 - 180	190.468	189.492	190.571	-3.1	191.516	-3.0	195.741	-3.0	81.5
Sweden	(SKr)	10.4557	+0.0389	454 - 659	10.5162	10.4118	10.4576	-0.2	10.4612	-0.2	10.4784	-0.2	85.6
Switzerland	(SFr)	1.8126	+0.0132	113 - 139	1.8140	1.8030	1.8055	4.7	1.7922	4.5	1.7361	4.2	114.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.1
Ecu	-	1.2246	+0.0046	238 - 253	1.2272	1.2210	1.2235	1.1	1.2213	1.1	1.2138	0.9	-
SDR†	-	1.03962	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5023	-0.0122	017 - 028	1.5084	1.4977	-	-	-	-	-	-	-
Brazil	(R$)	1.4701	-0.0087	[illegible] - 706	1.4751	1.4651	-	-	-	-	-	-	-
Canada	(C$)	2.0761	-0.009	751 - 771	2.0815	2.0695	2.0748	0.8	2.0717	0.8	2.0642	0.6	83.4
Mexico	(New Peso)	11.1594	-0.0343	335 - 853	11.2189	11.1268	-	-	-	-	-	-	-
USA	($)	1.5030	-0.0117	025 - 034	1.5102	1.4978	1.502	0.8	1.5001	0.8	1.4905	0.8	86.6
Pacific/Middle East/Africa													
Australia	(A$)	2.0336	-0.021	323 - 349	2.0537	2.0260	2.0351	-0.9	2.0389	-1.0	2.0554	-1.1	87.2
Hong Kong	(HK$)	11.6204	-0.0908	161 - 246	11.6784	11.5816	11.6133	0.7	11.6052	0.5	11.5787	0.4	-
India	(Rs)	54.0612	-0.4832	947 - 276	54.2280	53.8940	-	-	-	-	-	-	-
Israel	(Shk)	4.7339	-0.0127	[illegible]	4.7584	4.7244	-	-	-	-	-	-	-
Japan	(Y)	160.327	-0.966	212 - 443	161.470	159.870	159.492	6.2	157.967	5.8	151.647	5.4	137.1
Malaysia	(M$)	3.8393	-0.0346	374 - 412	3.8652	3.8269	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2566	-0.0121	547 - 584	2.2713	2.2503	2.2595	-1.6	2.2686	-1.6	2.2907	-1.5	108.7
Philippines	(Peso)	39.3397	-0.3758	[illegible]	39.5210	39.2124	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.6368	-0.0441	[illegible]	5.6637	5.6178	-	-	-	-	-	-	-
Singapore	(S$)	2.1297	-0.0162	283 - 311	2.1417	2.1239	-	-	-	-	-	-	-
South Africa	(R)	5.4948	-0.029	924 - 972	5.5160	5.4775	-	-	-	-	-	-	-
South Korea	(Won)	1180.84	-10.14	021 - 107	1186.26	1176.67	-	-	-	-	-	-	-
Taiwan	(T$)	41.2820	-0.318	451 - 789	41.4585	41.1251	-	-	-	-	-	-	-
Thailand	(Bt)	38.0848	-0.2523	583 - 112	38.2530	37.9820	-	-	-	-	-	-	-

† Rates for Jan 25 Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 26		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan index
Europe													
Austria	(Sch)	10.4868	+0.1039	840 - 875	10.5080	10.4475	10.4703	1.8	10.4363	1.8	10.3158	1.8	108.1
Belgium	(BFr)	30.6545	+0.3025	390 - 700	30.7000	30.5450	30.6025	2.0	30.502	2.0	30.1395	1.7	108.1
Denmark	(DKr)	5.7650	[illegible]	[illegible]	5.7788	5.7481	5.76	1.0	5.7505	1.0	5.7725	-0.1	108.4
Finland	(FM)	4.5565	+0.0181	540 - 590	4.6068	4.5333	4.5515	1.3	4.5429	1.2	4.514	0.9	84.3
France	(FFr)	5.1204	+0.0444	191 - 217	5.1390	5.1025	5.1163	1.0	5.1108	0.8	5.0919	0.6	109.0
Germany	(DM)	1.4912	+0.0149	910 - 914	1.4942	1.4855	1.4888	1.9	1.4841	1.9	1.4647	1.8	109.9
Greece	(Dr)	246.765	[illegible]	[illegible]	247.420	245.000	248.44	-8.1	251.88	-8.0	266.515	-8.0	65.5
Ireland	(I£)	1.5586	-0.0124	576 - 595	1.5652	1.5535	1.5591	-0.5	1.5595	-0.2	1.5556	0.2	-
Italy	(L)	1603.09	+11.34	273 - 345	1612.94	1600.00	1609.94	-5.1	1621.99	-4.7	1680.09	-4.8	72.0
Luxembourg	(LFr)	30.6545	+0.3025	390 - 700	30.7000	30.5450	30.6025	2.0	30.5145	1.8	30.2095	1.5	108.1
Netherlands	(Fl)	1.6702	+0.0167	694 - 710	1.6743	1.6639	1.6669	2.4	1.6606	2.3	1.6378	1.9	107.9
Norway	(NKr)	6.5300	+0.061	272 - 328	6.5520	6.5060	6.5278	0.4	6.5195	0.6	6.5025	0.4	97.4
Portugal	(Es)	155.200	+1.8	150 - 250	155.990	154.050	155.575	-2.9	156.345	-3.0	159.95	-3.1	95.5
Spain	(Pta)	126.475	+1.525	450 - 500	126.670	125.830	126.87	-3.7	127.605	-3.6	131.095	-3.7	81.6
Sweden	(SKr)	6.9568	+0.0797	[illegible] - 615	6.9960	6.9071	6.9739	-2.9	7.0033	-2.7	7.1408	-2.6	85.6
Switzerland	(SFr)	1.2060	+0.0161	055 - 065	1.2067	1.1979	1.2022	3.8	1.1949	3.7	1.1655	3.4	114.8
UK	(£)	1.5030	-0.0117	025 - 034	1.5102	1.4978	1.502	0.8	1.5001	0.8	1.4905	0.8	82.7
Ecu	-	1.2274	-0.0145	270 - 277	1.2330	1.2250	1.2277	-0.3	1.2281	-0.2	1.2287	-0.1	-
SDR†	-	0.68586	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9998	-0.0003	995 - 998	0.9999	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	0.9782	+0.0019	781 - 782	0.9785	0.9767	-	-	-	-	-	-	-
Canada	(C$)	1.3814	+0.0048	811 - 816	1.3830	1.3778	1.3816	-0.1	1.3817	-0.1	1.3867	-0.4	82.9
Mexico	(New Peso)	7.4250	+0.035	100 - 400	7.4400	7.4050	7.4272	-0.4	7.4304	-0.3	7.4353	-0.1	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.5
Pacific/Middle East/Africa													
Australia	(A$)	1.3530	-0.0033	526 - 535	1.3599	1.3525	1.355	-1.8	1.3586	-1.6	1.3772	-1.8	89.0
Hong Kong	(HK$)	7.7317	-	312 - 322	7.7323	7.7309	7.7324	-0.1	7.7342	-0.1	7.7612	-0.4	-
India	(Rs)	35.9700	-0.04	700 - 700	36.0700	35.9600	36.12	-5.0	36.425	-5.1	37.995	-5.4	-
Israel	(Shk)	3.1497	+0.016	473 - 521	3.1572	3.1400	-	-	-	-	-	-	-
Japan	(Y)	106.675	+0.19	630 - 720	107.100	106.300	106.19	5.5	105.355	4.9	102.02	4.4	137.3
Malaysia	(M$)	2.5545	-0.003	540 - 550	2.5633	2.5530	2.5554	-0.4	2.5615	-1.1	2.585	-1.2	-
New Zealand	(NZ$)	1.5013	+0.0036	006 - 022	1.5024	1.5000	1.5044	-2.5	1.5102	-2.4	1.5348	-2.2	-
Philippines	(Peso)	26.1750	-0.045	700 - 800	26.1800	26.1700	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7507	3.7502	3.751	-0.1	3.7517	-0.1	3.756	-0.1	-
Singapore	(S$)	1.4170	+0.0003	165 - 175	1.4202	1.4165	1.4135	3.0	1.4075	2.7	1.382	2.5	-
South Africa	(R)	3.6560	+0.0092	555 - 565	3.6565	3.6529	3.6848	-9.4	3.7383	-8.8	3.9595	-8.3	-
South Korea	(Won)	785.550	-0.8	500 - 600	785.400	784.200	788.55	-4.6	792.05	-3.3	810.55	-3.2	-
Taiwan	(T$)	27.4540	+0.003	510 - 570	27.4600	27.4480	27.474	-0.9	27.514	-0.9	-	-	-
Thailand	(Bt)	25.3400	+0.05	300 - 500	25.3500	25.3250	25.4387	-4.7	25.6425	-4.8	26.525	-4.7	-

† SDR rate per $ for Jan 26. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 25: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

January 26	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3½	3¼	[illegible]	[illegible]	3¼	7.00	3.00	-
week ago	3¾	[illegible]	3½	3¼	3¼	7.00	3.00	-
France	4½	4⅜	4⅝	4⅝	4⅝	4.20	-	5.60
week ago	4½	4⅜	4⅜	4⅛	4¼	4.20	-	5.60
Germany	3½	3⅝	[illegible]	3⅜	3⅜	5.00	3.00	3.55
week ago	3¾	3⅝	3⅝	3⅜	3⅜	5.00	3.00	3.65
Ireland	5¼	5¼	5⅜	[illegible]	[illegible]	-	-	6.25
week ago	5⅜	5¼	5⅜	5⅝	[illegible]	-	-	6.25
Italy	10	[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	9.95
week ago	9¾	[illegible]	[illegible]	9¾	[illegible]	-	9.00	10.48
Netherlands	3¼	3¼	3⅛	3⅛	3⅛	-	3.00	3.30
week ago	3⅜	3⅜	3⅜	3¼	3¼	-	3.00	3.30
Switzerland	1¼	1¾	1¾	1¾	1¾	5.00	1.50	-
week ago	1⅝	1¾	[illegible]	[illegible]	[illegible]	5.00	1.50	-
US	5⅜	5⅜	5⅛	5¼	5⅛	-	5.25	-
week ago	[illegible]	5⅜	5⅜	5⅜	5⅛	-	5.25	-
Japan	½	½	½	½	[illegible]	-	0.50	-
week ago	¾	½	[illegible]	½	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5½	5⅛	5¼	5⅛	-	-	-
week ago	-	5⅝	[illegible]	[illegible]	5⅛	-	-	-
US Dollar CDs	-	5.23	5.19	5.12	4.99	-	-	-
week ago	-	5.23	5.28	5.18	5.03	-	-	-
ECU Linked Ds	-	4¾	[illegible]	4¾	[illegible]	-	-	-
week ago	-	4¾	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	3¼	[illegible]	[illegible]	3¼	-	-	-
week ago	-	3¼	[illegible]	[illegible]	3¼	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jan 26	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	3½ - 3⅜	3½ - 3⅜	3½ - 3⅜
Danish Krone	4½ - 4⅜	4½ - 4⅜	4½ - 4⅜	[illegible]	[illegible]	[illegible]
D-Mark	3½ - 3⅜	[illegible]	[illegible]	3½ - 3⅜	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 3	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible] - 8	[illegible] - 8	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible] - 9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	6¼ - [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	5½ - [illegible]	[illegible]	[illegible] - 5
Italian Lira	10½ - 9½	10⅛ - 10	[illegible]	[illegible]	[illegible]	[illegible]
Yen	½ - ⅜	[illegible]	[illegible]	[illegible]	½ - [illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	94.68	94.68	+0.01	94.69	94.63	97,577	432,403
Jun	94.96	95.03	+0.04	95.04	94.93	181,236	441,966
Sep	95.13	95.18	+0.04	95.19	95.09	106,654	290,827

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	95.16	95.18	-	95.18	95.11	726	10,466
Jun	95.40	95.46	+0.03	95.47	95.37	349	6,395
Sep	95.55	95.58	+0.04	95.59	95.55	124	749

All Open interest figs. are for previous day

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 26		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.81	16.71	4.864	2.092	5229	5.448	21.30	508.4	412.6	22.70	3.935	2.171	4.506	3.262	347.9	2.659
Denmark	(DKr)	53.17	10	8.882	2.586	1.113	2780	2.897	11.33	269.2	219.4	12.07	2.092	1.154	2.396	1.735	185.0	1.414
France	(FFr)	59.86	11.26	10	2.912	1.253	3130	3.261	12.75	303.1	247.0	13.59	2.356	1.299	2.698	1.953	208.3	1.592
Germany	(DM)	20.56	3.867	3.434	1	0.430	1075	1.120	4.379	104.1	84.83	4.666	0.809	0.446	0.926	0.671	71.53	0.547
Ireland	(I£)	47.79	8.989	7.983	2.325	1	2499	2.604	10.18	242.0	197.2	10.85	1.881	1.037	2.154	1.559	166.3	1.271
Italy	(L)	1.912	0.360	0.319	0.093	0.040	100.	0.104	0.407	9.685	7.891	0.434	0.075	0.042	0.086	0.062	6.654	0.051
Netherlands	(Fl)	18.35	3.452	3.066	0.893	0.384	959.8	1	3.910	92.95	75.74	4.167	0.722	0.398	0.827	0.599	63.86	0.488
Norway	(NKr)	46.94	8.829	7.842	2.283	0.982	2455	2.558	10	237.7	193.7	10.66	1.847	1.019	2.115	1.531	163.3	1.248
Portugal	(Es)	19.75	3.714	3.299	0.961	0.413	1033	1.076	4.207	100.	81.48	4.483	0.777	0.429	0.890	0.644	68.71	0.525
Spain	(Pta)	24.23	4.558	4.048	1.179	0.507	1267	1.320	5.163	122.7	100.	5.502	0.954	0.526	1.092	0.791	84.32	0.644
Sweden	(SKr)	44.04	8.284	7.358	2.142	0.922	2303	2.400	9.382	223.0	181.7	10	1.733	0.956	1.985	1.437	153.3	1.171
Switzerland	(SFr)	25.41	4.779	4.245	1.236	0.532	1329	1.384	5.413	128.7	104.9	5.769	1	0.552	1.145	0.829	88.42	0.676
UK	(£)	46.07	8.665	7.696	2.241	0.964	2409	2.510	9.814	233.3	190.1	10.46	1.813	1	2.076	1.503	160.3	1.225
Canada	(C$)	22.19	4.174	3.707	1.079	0.464	1160	1.209	4.727	112.4	91.57	5.039	0.873	0.482	1	0.724	77.22	0.590
US	($)	30.65	5.765	5.120	1.491	0.641	1603	1.670	6.530	155.2	126.5	6.959	1.206	0.665	1.381	1	106.7	0.815
Japan	(Y)	28.74	5.405	4.801	1.398	0.601	1503	1.566	6.122	145.5	118.6	6.525	1.131	0.624	1.295	0.938	100.	0.764
Ecu		37.61	7.073	6.282	1.829	0.787	1967	2.049	8.011	190.4	155.2	8.539	1.480	0.816	1.695	1.227	130.9	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.6733	0.6722	-0.0011	0.6760	0.6710	38,702	84,684
Jun	0.6779	0.6756	-0.0011	0.6779	0.6747	229	3,446
Sep	0.6808	0.6786	-0.0012	0.6808	0.6781	1	1,359

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.8399	0.8296	-0.0095	0.8399	0.8298	21,868	42,732
Jun	0.8435	0.8369	-0.0097	0.8435	0.8369	189	1,291
Sep	-	0.8435	-0.0099	-	0.8440	7	109

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	0.9428	0.9439	+0.0019	0.9475	0.9402	23,867	78,471
Jun	0.9550	0.9551	+0.0018	0.9586	0.9545	364	3,701
Sep	0.9664	0.9654	+0.0019	0.9664	0.9654	62	696

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est.vol	Open int.
Mar	1.5076	1.5016	-0.0062	1.5080	1.4950	11,662	46,446
Jun	1.4970	1.4986	-0.0062	1.5010	1.4910	36	255
Sep	-	1.4956	-0.0062	-	1.4910	4	5

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Feb	Mar	Apr	PUTS Feb	Mar	Apr
1.500	1.12	1.64	2.38	1.18	2.07	2.61
1.510	0.66	1.40	[illegible]	1.73	2.59	3.07
1.520	0.38	1.04	1.51	2.43	3.00	3.69
1.530	0.26	0.75	1.19	3.17	3.75	4.38
1.540	0.11	0.52	0.91	4.05	4.51	5.08
1.550	0.06	0.35	0.69	4.97	5.33	-

Previous day's vol., Calls 6,149 Puts 8,567 . Prev. day's open int., Calls 182,109 Puts 198,412

■ Pound in New York

Jan 26	---Close---	-- Prev. close --
£ spot	1.5025	1.5080
1 mth	1.5015	1.5070
3 mth	1.4998	1.5032
1 yr	1.4899	1.4965

FT GUIDE to WORLD CURRENCIES
The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

BANK RETURN

BANKING DEPARTMENT	Wednesday January 24, 1996	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	767,778,273	-604,210,864
Bankers deposits	1,818,392,270	+5,782,673
Reserve and other accounts	3,242,101,972	+23,562,643
	5,842,825,515	-474,865,348
Assets		
Government securities	1,320,282,581	-287,255,000
Advance and other accounts	1,588,480,818	-431,581,009
Premise, equipment and other secs	2,922,778,075	+239,400,700
Notes	11,128,075	+4,545,735
Coin	205,965	+4,226
	5,842,825,515	-474,865,348
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	19,268,871,925	-124,545,735
Notes in Banking Department	11,128,075	+4,545,735
	19,280,000,000	-120,000,000
Assets		
Other Government securities	11,266,570,382	-648,429,740
Other Securities	8,013,429,618	+528,429,740
	19,280,000,000	-120,000,000

UK INTEREST RATES

LONDON MONEY RATES

Jan 26	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¼ - 6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible] - 6
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible] - 6
Treasury Bills	-	-	[illegible]	[illegible] - 6	-	-
Bank Bills	-	-	[illegible]	[illegible]	6 - [illegible]	-
Local authority deps.	[illegible]	6¼ - 6⅛	[illegible]	6¼ - 6⅛	[illegible]	[illegible] - 6
Discount Market deps	6¼ - 6	6¼ - 6⅛	-	-	-	-

UK clearing bank base lending rate 6¼ per cent from January 18, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4½

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1½pc.
Ave. tender rate of discount 5.9886pc. ECGD fixed rate Stg. Export Finance. Make up day Dec 29, 1995. Agreed rate for period Jan 24, 1996 to Feb 25, 1996, Schemes II & III 7.82pc. Reference rate for period Dec 1, 1995 to Dec 29, 1995, Schemes IV & V 6.682pc. Finance House Base Rate 7pc from January 1, 1996

BANK OF ENGLAND TREASURY BILL TENDER

	Jan 26	Jan 19		Jan 26	Jan 19
Bills on offer	£200m	£200m	Top accepted rate	6.0169%	6.0164%
Total of applications	£2702m	£2315m	Ave. rate of discount	6.0090%	5.9886%
Total allocated	£200m	£200m	Average yield	6.1004%	6.0779%
Min. accepted bid	£98.500	£98.500	Offer at next tender	£200m	£200m
Allotment at min. level	56%	52%	Min. accept. bid 182 days	-	-

BASE LENDING RATES

	%		%		%
Adam & Company	6.25	Duncan Lawrie	6.25	Royal Bk of Scotland	6.25
Allied Trust Bank	6.25	Exeter Bank Limited	7.25	●Singer & Friedlander	6.25
AIB Bank	6.25	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.25
●Henry Ansbacher	6.25	●Robert Fleming & Co	6.25	TSB	6.25
Bank of Baroda	6.25	Girobank	6.25	United Bank of Kuwait	6.25
Banco Bilbao Vizcaya	6.25	●Guinness Mahon	6.25	Unity Trust Bank Plc	6.25
Bank of Cyprus	6.25	Habib Bank AG Zurich	6.25	Western Trust	6.25
Bank of Ireland	6.25	●Hambros Bank	6.25	Whiteaway Laidlaw	6.25
Bank of India	6.25	Heritable & Gen Inv Bk	6.25	Yorkshire Bank	6.25
Bank of Scotland	6.25	●Hill Samuel	6.25		
Barclays Bank	6.25	C. Hoare & Co	6.25	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.25	Hongkong & Shanghai	6.25	* In administration	
●Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.25		
Citibank NA	6.25	●Leopold Joseph & Sons	6.25		
Clydesdale Bank	6.25	Lloyds Bank	6.25		
The Co-operative Bank	6.25	Meghraj Bank Ltd	6.25		
Coutts & Co	6.25	Midland Bank	6.25		
Credit Lyonnais	6.25	* Mount Credit Corp	6.25		
Cyprus Popular Bank	6.50	NatWestminster	6.25		
		●Rea Brothers	6.25		

FT GOLD MINES INDEX

	Jan 26	% chg since 29/12/95	Mkt Cap $bn	% of Gold Mines	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (35)	2306.97	+26.6	27.88	100.00	1.47	-	2309.96	1637.91
■ Regional Indices								
Africa (18)	3822.22	+28.6	17.39	30.22	2.81	36.88	3084.48	2272.74
Australasia (5)	2874.98	+12.9	5.85	10.16	2.13	41.62	2732.31	1788.20
North America (12)	1990.81	+18.2	34.32	59.62	0.88	89.57	2010.71	1348.19

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LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995/96 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	6.28	6½	5½	†Ballynatray	6		-	-	-	-
-	F.P.	23.5	128	115	Century Inns	118		-	-	-	-
-	F.P.	14.3	80	72	†Dinatek	78	+2	-	-	-	-
-	F.P.	25.8	88	78	Jupiter Split Cap	85½		-	-	-	-
-	F.P.	53.8	101	98	Jupiter Split Inc	98½		K7.24	-	9.2	-
-	F.P.	59.0	139	128	Jupiter Split Units	139		7.24	-	0.2	-
-	F.P.	0.13	8	8	†Nthn Print Wts	8		-	-	-	-
-	F.P.	1.18	105	100	†Revelation Pstlly	105		-	-	-	-
-	F.P.	0.81	7½	6	†SkyePharma Wts	7½	+1	-	-	-	-
-	F.P.	6.26	175	128	†Vianlon	175	+10	-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1995/96 High	Low	Stock	Closing price p	+or-
[illegible]	Nil	13/2	[illegible]	48pm	Berkeley Group	54pm	+6
28	Nil	27/2	1½pm	¼pm	Beco Hldgs	½pm	
225	Nil	1/2	43pm	23pm	Parsons	43pm	+11
55	Nil	28/1	27pm	19pm	Seafield Res	24pm	
14	Nil	28/2	¼pm	¼pm	†Western Selection	¼pm	

pm premium.

UK GILTS PRICES

	Notes	Price £	Wk % +/-	Amount £m	Interest due	Last xd	City line
Shorts" (Lives up to Five Years)							
15¼pc 1996‡‡		102⅜	-.2	1,150	Nv3 My3	27.9	1309
Exch 13¼pc 1996‡‡		102⅛	-.2	800	Mr15 My15	9.10	1268
Conversion 10pc 1996		103⅛	-.1	3,409	My15 Nv15	9.10	1240
Treas 13¼pc 1997‡‡		108⅞	-.1	1,290	Jy22 Ja22	18.12	1302
Exch 10½pc 1997		104⅛	-.1	3,700	Ap21 Fe21	17.7	1253
Treas Cnv 7pc 1997‡‡		101⅞xd	-.1	1,988	Fe6 Au6	26.1	4491
Treas 8¾pc 1997‡‡		103⅞	-.2	5,550	Mr1 Se1	26.7	1341
Exch 15pc 1997		114⅞	-.3	830	Ap27 Oc27	20.9	1269
9¾pc 1998		106½	-.3	3,550	Jy19 Ja19	13.12	1273
Treas 7¼pc 1998‡‡		102⅛	-.2	6,150	Se30 Mr30	24.8	1788
Treas 6¾pc 1995-98‡‡		100⅛	—	1,200	Nv1 My1	25.9	1331
Treas 15½pc '98‡‡		122	-.4	935	Mr30 Se30	24.8	1306
Exch 12pc 1998		114⅞	-.4	3,909	My20 Nv20	16.10	1259
Treas 9½pc 1999‡‡		108	-.4	1,900	Jy15 Ja15	11.12	1347
Treas Flg Rate 1999		100⅛	—	5,700	9JaSeDeMr	6.11	4945
Exch 12¼pc 1999		116	-.4	3,050	Se26 Mr26	21.8	1264
Treas 10½pc 1999		111⅞	-.6	1,252	Nv19 My19	13.10	1266
Treas 6pc 1999 ‡‡		98⅛	-.5	6,600	Fe10 Au10	4.7	3535
Conversion 10¼pc 1999		111⅛	-.6	1,798	My22 Nv22	16.10	1242
Conv 9pc 2000‡‡		108	-.6	5,358	Se3 Mr3	28.7	1244
Treas 13pc 2000		123⅞	-.6	3,171	Ja14 Jy14	8.12	1259
14pc 1998-1		116⅛	-.3	970	Nv22 My22	16.10	1306
Five to Fifteen Years							
Treas 8pc 2000‡‡		105⅛	-.7	4,800	Ja7 De7	31.10	4948
10pc 2001		113⅛	-.7	4,406	Au26 Fe26	20.7	1280
7pc 2001 ‡‡		100¼	-.8	7,750	My6 Nv6	2.10	3031
9¾pc 2002		113⅝	-.7	6,527	Fe27 Au27	21.7	1349
8pc 2003‡‡		104⅛	-.9	8,600	De10 Je10	3.11	2010
10pc 2003		115⅞	-.8	2,503	Mr8 Se8	2.8	1281
Treas 11½pc 2001-4		118⅞	-.8	1,620	Se19 Mr19	14.8	1280
Funding 3½pc 1999-4		82⅞	-1.0	543	Ja14 Jy14	8.12	1274
Conversion 9½pc 2004		113⅛	-.9	3,412	Ap25 Oc25	18.9	1248
Treas 6¾pc 2004‡‡		95⅞	-1.0	6,500	My26 Nv26	20.10	3541
Conv 9½pc 2005		113⅞	-1.0	4,842	De18 Ap18	11.9	1247
Treas 12½pc 2003-5		129⅞	-.8	2,300	My21 Nv21	16.10	1295
Treas 8½pc 2005‡‡		107⅛	-1.1	8,900	Ja7 De7	31.10	4946
7¾pc 2006‡‡		100⅞	-1.1	8,000	Ja7 De7	31.10	1146
7¾pc 2006‡‡		101⅞	-1.1	3,900	Mr8 Se8	2.8	2300
8pc 2002-6‡‡		102⅞	-1.1	2,000	Ap5 Oc5	1.9	1334
Treas 11¾pc 2003-7		123⅞	-.8	3,150	Jy22 Ja22	18.12	1289
Treas 8½pc 2007 ‡‡		107⅞	-1.1	7,397	Ja16 Jy16	11.12	1339
13½pc 2004-8		136⅞	-.8	1,250	Se26 Mr26	26.9	1301
Treas 9pc 2008 ‡‡		111⅛	-1.1	5,621	Ap13 Oc13	6.9	1343
Treas 8pc 2009		108	-1.2	3,450	Mr25 Se25	21.8	1339
Over Fifteen Years							
Treas 6 1/4pc 2010		87⅛	-1.2	4,750	Mr25 Nv25	19.10	4932
Conv 9pc Ln 2011 ‡‡		111⅞	-1.1	5,273	Jy12 Jy12	8.12	1245
Treas 9pc 2012‡‡		111⅞xd	-1.1	6,360	Fe6 Au6	26.1	1701
Treas 5½pc 2008-12‡‡		81½	-1.3	1,000	Mr10 Se10	4.8	1330
Treas 8pc 2013‡‡		102⅞	-1.1	6,100	Mr27 Se27	21.8	2229
7¾pc 2012-15‡‡		100⅛xd	-1.0	800	Jy26 Ja26	20.12	1332
8pc 2015		102⅞	-1.1	8,500	Ja7 De7	31.10	4992
Treas 8¾pc 2017‡‡		108⅞	-1.0	7,550	Fe25 Au25	19.7	1992
Exch 12pc 2013-17		139⅞	-1.0	1,000	Ja12 De12	6.11	1260
Undated							
Consols 4pc		50¼xd	-.7	359	Fe1 Au1	22.12	1238
War Loan 3½pc‡‡		44⅞	-.7	1,909	Je1 De1	25.10	1362
Conv 3½pc '61 Aft		62	—	115	Ap1 Oc1	25.9	1243
Treas 3pc '66 Aft		35⅛	0.7	56	Ap5 Oc5	1.9	1324
Consols 2½pc		32⅛	-1.0	276	5JaApJyOc	1.12	1238
Treas. 2½pc		31⅞	—	475	Ap1 Oc1	25.9	1315
Index-Linked	(b)						
2pc '96	(67.9)	215⅞	0.1	1,200	Mr16 Se16	10.8	1313
4⅝pc '98‡‡	(135.6)	113⅛	—	800	Ap27 Oc27	20.9	1753
2½pc '01	(78.3)	179⅛	-.2	1,700	Mr24 Se24	18.8	1316
2½pc '03	(78.8)	175⅛	-.4	1,200	My20 Nv20	16.10	1317
4⅜pc '04‡‡	(135.6)	116⅛	-.4	1,000	Ap21 Oc21	14.9	1255
2pc '06	(69.5)	184⅛	-.4	1,950	Ja19 Jy19	13.12	1314
2½pc '09	(78.8)	165⅞	-.7	2,050	My20 Nv20	16.10	1318
2½pc '11	(74.6)	172⅛	-.8	2,380	Fe23 Au23	17.7	1319
2½pc '13	(89.2)	141⅞	-.7	2,750	Fe16 Au16	11.7	1320
2½pc '16	(81.6)	151⅛xd	-.8	3,050	Ja26 Jy26	20.12	1321
2½pc '20	(83.0)	144⅞	-.8	2,800	Ap16 Oc16	11.9	1322
2½pc '24‡‡	(97.7)	120⅞	-1.1	2,700	Ja17 Jy17	11.12	1323
4⅛pc '30‡‡	(135.1)	119⅛	-1.8	1,300	Ja19 Jy22	18.12	1134

(b) Figures in parentheses show RPI base for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in February 1987. Conversion factor 3.945. RPI for May 1995: 149.7 and for December 1995: 150.7.

Other Fixed Interest

	Notes	Price £	Wk % +/-	Amount £m	Interest due	Last xd	City line
Asian Dev 10¼pc 2009		120	0.8	100	Mr24 Se24	3'93	-
B'ham 11½pc 2012		128	0.8	45	My15 Nv15	13.10	1837
Ireland Cap 9½pc '10		105⅛	—	303	Ap1 Oc1		- 1485
9pc Cap 1996		104	—	725	Ja30 Jy30	-	-
13pc '97-2		110⅞	—	315	Ap1 Oc1	8'93	1426
Hydro Quebec 15pc 2011		152⅛	0.6	40	My31 Nv30	10'93	-
Leeds 13½pc 2006		135⅞	0.7	40	Ap1 Oc1	8.9	3146
Liverpool 3½pc Irred		40½	—	5	1JaApJyOc	1.9	-
LCC 3pc '20 Aft		35	—	26	1MrJeSeDe	29.1	-
Manchester 11½pc 2007		124⅞	0.6	6	Ap25 Oc25	25.9	3275
Met. Wtr. 3pc 'B'		78	1.3	25	Mr1 Se1	1.8	3361
N'wide Anglia 3⅝pc 2021		141½	0.4	80	Ja30 Jy30	23.6	3465
4⅝pc IL 2024		137	0.7	60	Au23 Fe23	17.7	-
Utd Mex States 16½pc 2008		136½	11.0	50	Mr1 Se1	8'93	-

● 'Tap' stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Weekly percentage changes are calculated on a Friday to Friday basis.

STOCK INDICES

	Jan 26	Jan 25	Jan 24	Jan 23	Jan 22	1995/96 High	Low	Since comp. High	Low
FT-SE 100	3734.70	3734.20	3758.20	3735.00	3754.20	3769.20	2954.20	3769.20	986.90
FT-SE Mid 250	4085.60	4088.70	4086.90	4072.40	4078.20	4162.90	3300.90	4152.90	1379.40
FT-SE Mid 250 ex ITs	4089.81	4090.52	4091.90	4078.29	4083.73	4160.84	3306.40	4160.70	1378.30
FT-SE-A 350	1854.60	1854.50	1863.90	1853.40	1861.50	1863.90	1482.40	1863.90	664.50
FT-SE SmallCap	2005.59	2003.76	2002.59	1996.69	1995.87	2005.59	1678.61	2005.00	1363.79
FT-SE SmallCap ex ITs	1977.03	1975.37	1974.32	1969.36	1969.02	1977.88	1658.18	2000.72	1363.79
FT-SE-A All-Share	1829.89	1828.67	1837.17	1827.22	1834.51	1837.17	1469.23	1837.17	61.92
FT-SE-A Fledgling	1138.55	1134.84	1132.24	1129.52	1129.32	1139.85	949.00	1139.55	949.00
FT-SE Eurotrack 100	1538.40	1543.95	1540.88	1529.19	1538.48	1544.02	1222.41	1544.02	909.45
FT-SE Eurotrack 200	1644.06	1651.49	1646.62	1634.84	1641.80	1651.49	1314.73	1651.49	936.62
FT Ordinary	2765.30	2765.80	2788.20	2769.40	2779.60	2788.20	2025.10	2788.20	49.40
FT Govt Securities	95.82	95.88	96.15	95.96	96.20	96.34	90.22	127.40	49.18
FT Fixed Interest	114.57	114.91	114.73	114.74	115.23	115.23	105.57	133.87	50.53
FT Gold Mines	2306.97	2277.44	2245.23	2260.07	2286.84	2307.88	1657.91	2307.88	922.16

APPOINTMENTS

SALES PERSON - EQUITY LINKED DERIVATIVES

Leading international city-based investment company requires a sales person to specialise in the origination and structuring of Russian and East European equity-linked products and development of client relations for capital markets transactions in the region. The successful applicant, aged 25-30 and educated to degree standard will be fluent in Russian in addition to English with minimum five years' relevant experience in negotiating and closing transactions in the region. In depth knowledge of Russian and East European companies and markets; strong analytical skills and previous background in structuring derivative products essential. Salary negotiable.

Please write in strictest confidence, enclosing full curriculum vitae, to Box A5270, Financial Times, One Southwark Bridge, London SE1 9HL

LEGAL NOTICES

IN THE COMMONWEALTH COURT OF PENNSYLVANIA

LINDA S KAISER,
INSURANCE COMMISSIONER OF THE COMMONWEALTH OF PENNSYLVANIA,
Plaintiff
vs.
THE MUTUAL FIRE, MARINE AND INLAND INSURANCE COMPANY,
Defendant

NO. 3483 C.D. 1986

NOTICE TO CEDENTS AND OTHER CREDITORS OF MUTUAL FIRE, MARINE AND INLAND INSURANCE COMPANY (IN REHABILITATION)

On December 15, 1995, the Commonwealth Court issued an Order setting a bar date of March 31, 1996 and a record date of December 31, 1995 for all Class 1 and 6 cedent claims. These claims are limited to claims of insurers who ceded business to Mutual Fire, as a reinsurer. The record date of December 31, 1995 limits cedent claims to those actually paid by December 31, 1995.

ANY CEDENT WHO FAILS TO FILE A FULLY COMPLETED PROOF OF CLAIM ON OR BEFORE MARCH 31, 1996 SHALL BE FOREVER BARRED FROM PARTICIPATING IN OR RECEIVING ANY DISTRIBUTION FROM THE ESTATE. Copies of the Proof of Claim are being sent to all eligible cedents and are available upon request. A full description of the rights and obligations of cedents is contained in the Plan of Rehabilitation, which will be provided upon written request. All such requests must include a 9" x 12" self addressed envelope with US $2.36 postage pre-paid.

Please submit all requests in writing to: PO Box 58129, Philadelphia, PA 19102-8129.

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Allied Domecq	[illegible]	527xd	-.6	Q29.5	1.2	Feb Jul	4.12	1658
Bulmer (HP)	[illegible]	524xd	3.1	12.3	2.6	Feb Sep	8.1	2005
Burn St Dist	[illegible]	124	-.8	8.0	0.9	May Nov	30.10	1518
Grand Met	[illegible]	446xd	-.9	14.6	1.9	Apr Oct	29.12	2759
Guinness	[illegible]	467	-.6	14.1	2.3	Nov May	9.10	2797
Highland	[illegible]	321	-1.5	7.9	2.7	Jan Jul	4.12	2890
Kirin Y	[illegible]	779¼	1.5	Q20%	4.2	Mar Sep	–	1119
Macallan-Glen	[illegible]	168	-5.6	1.32	3.4	Nov May	2.10	3254
Macdon Martin A	[illegible]	635	—	10.9	3.3	Jan Jul	11.12	3257
Matthew Clark	[illegible]	668	-1.2	22.0	0.2	Apr Oct	31.7	2193
Merrydown	[illegible]	107	-.9	2.0	–	Jan Oct	11.12	3352
Seagram $		522	-.5	Q90c	–	[illegible]	3'93	–

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Barings 8pc Cw 2nd Prf		50½	—	8%	–	Jan Dec	11'94	1767
Cater Allen	[illegible]	474	0.9	30.0	2.0	Jan Aug	11.12	2061
Close Bros	[illegible]	535	0.3	8.7	2.5	Apr Nov	9.10	2166
Gerrard & Nat	[illegible]	470	0.6	22.5	1.3	Jul Dec	13.11	[illegible]
Hambros	[illegible]	196	-1.0	7.5	–	Aug Dec	27.11	2812
7½pc Cv Pf		182	—	7½%	–	Oct Apr	4.9	4388
Jospeh (L)	[illegible]	453	—	18.75	1.8	Sep Jan	11.12	3950
King & Shaxson	[illegible]	146	—	9.8	1.4	Jan Jul	22.12	3068
Rea Brothers	[illegible]	85	—	1.8	2.4	May Sep	14.8	3785
Schroders	[illegible]	1285	-3.0	14.17	5.1	May Oct	18.9	3939
N/V	[illegible]	1098	-3.0	14.17	5.1	May Oct	18.9	3941
Singer & Fried	[illegible]	103½	1.5	3.7	2.7	Nov Jun	25.9	4028
6½pc Cv Ln 08/14		£332½		0.60 6½%	–	–	19.10	4886

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	Wk% chnge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£39½	1.5	Q478c	2.4	Oct Apr	9.93	–
Barlow	♣	£20½	-.1	Q86c	◆	Jan Jul	11.12	–
Gold Flds Prop R		143	–	Q95c	2.1	Feb Sep	1.94	–
MK Props		98	3.2	Q67.1c	–	Feb Sep	10.93	–
SASOL	♥	616	1.0	Q76c		Oct	9.93	–
SA Brews		£22½	-1.5	Q208c	3.1	Jun Dec	27.11	–
Standard Bank	□	£22½	2.1	Q254c	3.1	Sep Mar	–	–
Tiger Oats		1220	5.8	Q106c	◆	Jan Aug	11.12	–
Tongaat-Hulett	†	1297	-.3	Q116c	2.7	Jan Jun	4.12	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; unless "ν" is shown in the Notes field, indicating that the cover is calculated on a "nil" basis. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ◆ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✱ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ǂ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ◆ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend.
b Figures based on prospectus or other official estimates.
c Cents.
d Assumed dividend.
h Assumed dividend after scrip issue.
m Interim higher than previous total.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend includes a special payment.
t Indicated dividend: cover relates to previous dividend.
u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings.
v P/e ratio & net cover calculated under new ACT guidelines.
z Dividend includes a special payment: Cover does not apply to special payment.
F Dividend based on prospectus or other official estimates for 1994-95.
G Assumed dividend after pending scrip and/ or rights issue.
H Dividend based on prospectus or other official estimates for 1995.
K Dividend based on prospectus or other official estimates for 1996
L Estimated annualised dividend, cover based on latest annual earnings.
M Dividend based on prospectus or other official estimates for 1995-96.
Q Gross.
R Forecast annualised dividend, cover based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend total to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Glengarry (Extr Inds), Cox Insce (Insce), Crown Products and Mountcashel (AIM). Deletions: Polar (Distrbs), Scantronic Ord, 5 3/4pc & 7 1/4pc Prf (Elect & Elct), Ex Land Ord & 7 1/2pc Pf (Prop).

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You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT4814. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.
Both Annual Reports and FT Company Focus are available from the above number.

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Comprehensive 10-14 page report available on this company, containing key FT stories from the last year, latest survey of City profit forecasts and investment recommendations, 5 year financial and share price performance review, balance sheet and profit and loss data, plus recent Stock Exchange announcements for £6.45.
To order, call 0121 200 4678.
Reports published by ShareFinder Ltd.

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Royal Bk of Canada O/S Fd Mgrs Ltd

The Fiduciary Trust Global Fund

GAM Fund Management Ltd (u)

Guinness Flight Select Funds Plc

Baring Mutual (Ireland) Ltd

Berkshire KTC Growth Fund Plc

Berkshire Korea Fund Plc

Bordier Invest (Ireland) Ltd

CFP Interest Rate Arbitrage Fund Plc

Calpine Fund

Capital Vision Fund Plc

BERMUDA (REGULATED)(**)

GUERNSEY (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

AXA Equity & Law Intl Fund Mngrs

Allied Dunbar Intl Fund Mgrs (1600)F

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngmt (IOM) Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Fleming Group

Foreign & Colonial Mngmt (Jersey) Ltd

Den norske Bank

Dolphin Intl Investments (x) SICAV

Dresdnerbank Asset Mngmt SA (x)

E.T. Investment Management Ltd

LUXEMBOURG (SIB RECOGNISED)

Mercury Asset Management S.A. - Contd.

Midland Intl Circuit Fund SICAV(a)

LUXEMBOURG (REGULATED)(**)

Yamaichi Korea Fund

NAV | $73.25 | | - | 55066

Yuki Taiwan Fund

NAV | $1013.17 | | - | -

Offer Price includes 3½% Initial Charge

صكذا من الأصل

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Clan European Asset Value Fund

Merrill Lynch Asset Management - Contd.

Albany International Assurance Ltd

Royal Life International

Capital International

Global Asset Management - Contd.

Magellan Emerging Mkts Mngt (Jersey) Ltd

Republic Funds

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

هكذا من الأصل

4 pm close January 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

هكذا من الأصل

NYSE COMPOSITE PRICES

4 pm close January 26

Continued from previous page

[illegible]

NASDAQ NATIONAL MARKET

4 pm close January 26

[illegible]

AMEX COMPOSITE PRICES

4 pm close January 26

[illegible]

FT GUIDE TO THE WEEK

MONDAY 29

EU looks at South Africa pact

European Union foreign ministers in Brussels will try to settle differences over a proposed trade agreement with South Africa. The proposed pact, which envisages a free-trade area, has run into opposition from some EU member states – notably France – fearful of the impact South African imports could have on the EU's agricultural sector. The French, who are also concerned about setting a precedent for other free-trade pacts, have called for a series of impact studies. However, Britain has lobbied hard for an early decision on a mandate allowing the Commission to begin negotiations. Ministers will consider a compromise under which the Commission would produce a preliminary impact study shortly.

Simitis presents policies

Greece's new prime minister, Costas Simitis, outlines to parliament his government's policies. Mr Simitis, who took over after the resignation of Andreas Papandreou because of ill-health, promises a "new era" of "sober, responsible decisions which will carry Greece into the 21st century". The governing socialists will try to speed up privatisation, tighten fiscal policy and trim government spending through reforms of the public sector. In foreign policy, Greece is expected to draw closer to its European Union partners and make an effort to improve ties with Balkan neighbours.

Princess Anne in Falklands

Princess Anne begins a trip to the Falkland Islands (to Feb 4), where she will tour the battlefields of the 1982 war. According to the Foreign Office, the visit is to underline the UK government's commitment to the islanders' rights to live under a government of their choice. Among the sites the princess is to visit – it is intended she should meet as many islanders as possible – are San Carlos, where the British forces first landed, and Goose Green, where 235 Argentine soldiers were buried after it was recaptured in the biggest land battle of the war.

Bouchard sworn in

Quebec's march to independence gathers pace with the swearing in of Lucien Bouchard as premier of the French-speaking Canadian province. Mr Bouchard is the former leader of the Bloc Québécois, which represents the separatist cause in the federal parliament in Ottawa. He had an electrifying impact on last year's secession referendum, in which 49.4 per cent of voters backed independence. The political climate has since moved further in the secessionists' favour. However, Mr Bouchard's more immediate concern will be finalising the austerity plan drawn up by the outgoing premier, Jacques Parizeau.

A film called Loch Ness, concerning the legendary monster, brings a touch of Hollywood to the Highlands, where 10 feature films have been made since 1994

Blair on Faith in the City

Tony Blair, the leader of Britain's Labour party, delivers a speech at Southwark Cathedral on Faith in the City. His speech will mark the 10th anniversary of the Church of England's controversial Faith in the City report and is expected to deal with social cohesion and reform of education policy.

Pressure builds on Samper

The Colombian Congress is due to be recalled for a special session amid increasingly intensive pressure on the president, Ernesto Samper, to resign. The session follows evidence by the former defence minister, Fernando Botero, who alleges that the president was deeply involved with securing contributions from the Cali drugs cartel for his 1994 election campaign. Calls for his resignation have come from retired military officers, students, politicians and business groups. Behind the scenes, it is understood that leading politicians from the main parties are trying to find an honourable way out for both the president and the country.

FT Survey

World Tyre Industry.

TUESDAY 30

Germany in jobs push

The German government announces an action programme to stimulate the economy and create jobs – while admitting in its annual economic report that Germany will fail to meet the Maastricht criteria this year. With gross domestic product set to grow only 1.5 per cent this year, the government is under pressure to come up with a convincing programme that will include social spending cuts, a reform of social welfare contributions and possible tax incentives.

US Federal Reserve meets

The Federal Reserve's open market committee begins a two-day meeting on US monetary policy. Betting is about even as to whether the Fed will lower the target short-term interest rate from 5.5 per cent. Although recent data have shown the economy to be slowing quickly, the Fed lowered the target rate by 25 basis points just over a month ago. Any indications that government spending will decrease could spur the central bankers to action. The bond market is certainly counting on more monetary easing this year.

Holidays

Nepal (Martyrs' Day).

WEDNESDAY 31

Labour reviews women lists

The British Labour party's national executive committee decides whether to drop its commitment to having all-women shortlists when nominating candidates for some parliamentary constituencies. An industrial tribunal has ruled that the policy breaks sex discrimination law. However, it is believed that Tony Blair, the Labour leader, may be ready to ditch a policy of which he has never been a convinced advocate anyway.

Jacques Chirac visits US

In the first state visit to the United States by a French president for more than a decade, President Jacques Chirac will emphasise to President Bill Clinton France's interest in closer security co-operation with the US and Nato (to Feb 2). During an address to Congress, Mr Chirac will call for the US to fund more development aid. As well as exploring the ramifications of France's rapprochement with Nato, Mr Chirac will discuss the two countries' peacekeeping operations in Bosnia and propose France and the European Union become more involved in the Middle East peace process – especially with economic support.

Reconciliation in Seoul

In an attempt to dispel worries that alleged corporate bribes to two former Korean presidents will result in a crackdown on business, the South Korean president, Kim Young-sam, hosts a dinner for the chairmen of the country's 30 leading industrial groups. The dinner in Seoul is seen as a sign of reconciliation between big business and government.

Holidays

China, Malaysia, Nauru.

THURSDAY 1

Economic forum at Davos

Sustaining globalisation is the theme of the annual world economic forum at the Swiss ski resort of Davos (to Feb 6). About 1,000 business executives, some 250 heads of government, ministers and rising political stars and a string of central bankers will attend what is one of the world's most exclusive networking sessions. Among them will be Gennady Zyuganov, the Russian Communist party chief expected to stand for the presidency this year, and a clutch of Latin American presidents, including Ernesto Zedillo, of Mexico, and Carlos Menem, of Argentina. Alexander Kwasniewski, Poland's newly elected president, and Benazir Bhutto, Pakistan's prime minister, are also expected.

Safe by-election for Labour

Voting takes place in a UK parliamentary by-election in Hemsworth, west Yorkshire, after the death last year of Derek Enright, the Labour MP. Labour is expected to retake the constituency, where at the last election it had a majority of 22,075.

Golf

AT&T Pebble Beach national pro-am, part of the US PGA tour; Heineken Classic, Perth, Australia (both to Feb 4).

FT Survey

Access to US Capital Markets.

Holidays

China, New Zealand.

FRIDAY 2

Groundhog Day

When Punxsutawney Phil, the groundhog seer of seers, emerges from his burrow at Gobbler's Knob in Pennsylvania, USA, whether he sees his shadow will signal if spring is to be early or late. That is the 110-year-old tradition, in any case – a cousin of similar Candlemas Day legends in Europe. Late springs are the rule: he has failed to see his shadow only 11 times. Phil, who lives mainly in the town library, has become a worldwide celebrity because of the film Groundhog Day. Not only do more tour buses rumble through Punxsutawney; he is also on the Internet.

Asean human rights concern

How to defuse Western concerns over human rights will be high on the agenda at a meeting of foreign ministers from the seven-member Association of South-East Asian Nations. The talks are to prepare for the Asia-Europe summit in March, when it is expected the debate over social issues could be unusually acute. Thailand, which is hosting the meeting at Phuket, said the 15-member European Union and the 10 participating Asian countries (the Asean plus China, Japan and South Korea) wanted to strengthen their somewhat neglected links.

The EU already expects trade with Asia to rise twice as fast as with the US next century but many EU countries want trade linked to basic standards in environmental protection and human rights.

Mastering Management

M The FT's 20-part series continues in the UK edition with part 13. Non-UK readers can take out a subscription. Contact: PO Box 384, Sutton, Surrey, SM1 4XE, UK. Tel: +44 181 770 9772. Fax: +44 181 643 7330.

FT Survey

International Youth.

Holidays

China, Liechtenstein.

SATURDAY 3

Loch Ness monster appears

Loch Ness, a film made by Working Title, the company behind Four Weddings and a Funeral, receives its world premiere in Inverness. Among the 450 guests invited by the Highland Regional Council will be more than 50 residents from the village of Diabaig – almost its entire population – which doubled as the lochside community where much of the romantic comedy is set. Loch Ness, which centres on the legendary monster, was among 10 feature films made in the Highlands during 1994-95, including Rob Roy and Braveheart. The films are estimated to have brought in £12m to the Highlands' economy.

Rugby union

Five Nations' championship: England v Wales, Twickenham, London; Scotland v France, Murrayfield, Edinburgh.

Athletics

Sally Gunnell lines up to race in Britain for the first time for nearly 18 months in the UK indoor championships, Birmingham (to Feb 4).

Holidays

China, Thailand.

SUNDAY 4

Flag up for privatised trains

The UK's three newly privatised passenger train companies start services. The sale of the first franchises was announced in December but it has taken nearly two months to complete the final details and hand over to the winning bidders. South West, acquired by Stagecoach, has a train leaving Waterloo at 5.10am. Great Western, bought by its management and FirstBus, runs a 5.30am service from Cardiff to London Paddington. LTS, also bought by its management, has a 5.35am train leaving Shoeburyness for London Fenchurch Street.

Snooker

Benson & Hedges Masters, Wembley, London (to Feb 11).

Compiled by Simon Strong.
Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: Portugese budget presented to parliament. New Zealand's trade balance expected to move back into the black for December. Japanese December industrial production thought to have continued recent upswing after bottoming out in September.

Tuesday: Japanese unemployment thought to have been stable at 3.4 per cent in December. Rise in US retail sales expected to have slowed in December, although forecasts differ widely.

Wednesday: US producer price inflation is thought to have changed little between November and December, although car prices may have fallen back. Unemployment in France is forecast to have increased a little in November to about 11.6 per cent of the workforce.

Thursday: Britain's trade deficit with the rest of the world is expected to have narrowed sharply after October's £1.7bn shortfall. Meanwhile, UK consumer credit is forecast to have strengthened between November and December.

Friday: US non-farm employment is predicted to have risen by about 125,000 during January, with labour market momentum weakening.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	Japan	Dec industrial production prelim†	-	1.5%
Jan 29	Japan	Dec shipments prelim†	-	2.5%
	Japan	Jan wh'sale price indx, 2nd 10 days*	-	0.3%
Tues	US	Dec retail sales	0.6%	0.8%
Jan 30	US	Ditto ex-automobiles	0.2%	0.9%
	US	Jan consumer confidence indx	97.5	98.7
	US	Dec Treasury budget	-	-$38.5bn
	US	Johnson Redbook w/e Jan 27	-	-0.2%
	Japan	Dec unemployment rate	3.4%	3.4%
	Japan	Dec job offers/seekers ratio	0.63	0.63
	Japan	Nov coincident indx	40.0%	75.0%
	Japan	Nov leading diffusion indx	60.0%	80.0%
	Japan	Dec retail sales**	-2.0%	-0.5%
	Switz'd	Jan consumer price indx*	0.3%	0.0%
Wed	US	Dec producer price indx	0.4%	0.5%
Jan 31	US	Ditto ex-food & energy	0.2%	0.4%
	US	Jan Chicago Ass purchas'g mngrs†	-	57.6%
	US	Dec export price indx	-	-0.2%
	US	Dec import price indx	-	0.2%
	US	Jan agriculture prices	-	0.9%
	Japan	Dec construction orders**	-	-10.4%
	Japan	Dec construction starts**	-	-1.1%
	France	Nov unemployment rate	11.6%	11.5%
	France	Nov jobseekers*†	0.5%	0.3%
	Aus'lia	Dec current a/c	A$2.0bn	A$1.87bn
Thur	US	Jan Nat Assn Purchasing managers	46.4%	47.3%
Feb 1	US	Initial claims w/e Jan 27	379,000	–
	UK	Jan Chart'd inst purchasing mngrs	-	50.7%
	UK	Nov global trade balance	-$0.9bn	$1.66bn
	UK	Dec consumer credit	£677.5m	£613m
	UK	Dec final money data	-	n/a
Fri	US	Jan non-farm payrolls	83,000	151,000
Feb 2	US	Jan manufacturing payrolls	-10,000	52,000
	US	Jan hourly earnings	0.2%	0.4%
	US	Jan average workweek	-	34.4 hrs
	US	Jan unemployment rate	5.7%	5.6%
	US	Jan Michigan sentiment final	-	89.9
	UK	Jan official reserves	$0.0m	$50.0m
	Arg'tina	Jan consumer price indx*	0.2%	0.1%
	Arg'tina	Jan wholesale price indx*	0.4%	0.2%
	Aus'lia	4th qtr retail trade real***	0.3%	1.4%
During the week...				
	US	Jan domestic auto sales	6.9m	7.7m
	US	Jan domestic light truck sales	6.0m	6.5m
	Germany	Nov trade balance	DM7.6bn	DM8.5bn
	Germany	Nov current a/c	-DM1.8bn	-DM4.1bn
	Germany	Dec industrial production, West*	-0.5%	0.0%
	Germany	Dec manufacturing output, West*	-0.2%	-0.8%
	Germany	Dec indust prod'tion, pan-Germany*	-0.5%	0.1%

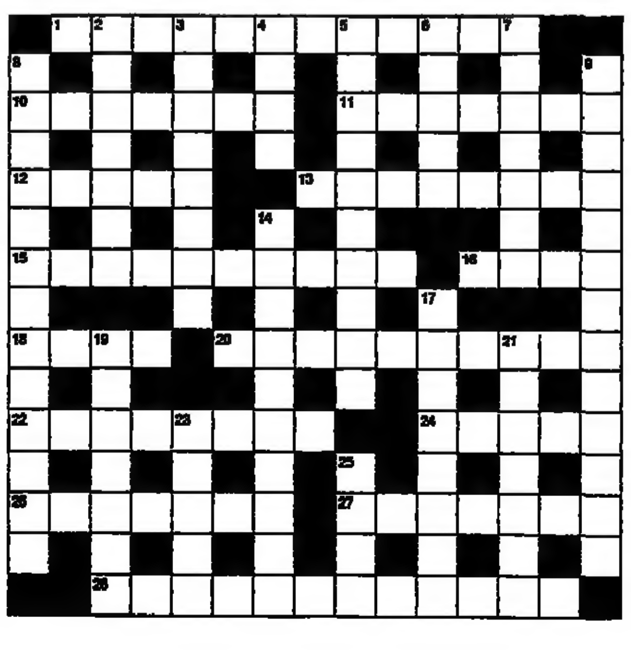
*month on month, **year on year, ***qtr on qtr, †seas/adj *Statistics, courtesy MMS International.*

ACROSS

1 Finally put down if ex sent rude letters round? (3,4,5)
10 Places in the foreign office, starting with California (7)
11 Senior member longing to have finished without (7)
12 In first white man's home, grumble (5)
13 It's forbidden for audiences to take a long time dressing (8)
15 One refusing to take meat from Reigate turned vehicle round (10)
16 Girl in love ran off (4)
18 When reversing hits beam (4)
20 In pet cat is disorder clinical? (10)
22 Bet Heath has returned to the waiting area (8)
24 Lustful man for a day a year (5)
26 Still in Gateshead on time (7)
27 Writer, a nice one, escaping punishment (7)
28 Casinos changing French money in US city (3,9)

DOWN

2 Throwing piano away is irritating (7)
3 Broadcast of taste includes student vocal production (8)
4 Point of brute being beheaded? (4)
5 Staggering cut in play admitted to be unexciting? (10)
6 Lines father's written about a wood nymph (5)
7 Go back in, Irene (guess it's late) (7)
8 Elderly spouses least upset by superstitious tradition (3,5,5)
9 Repairs can improve favourite floor covering (7,6)
14 Press Frenchman to take on half-German shopkeeper (10)
17 He and I have 50 to invest in capital (8)
19 Thespian having a key to a lock (7)
21 Huge cracks in attic (7)
23 A controller contains string as a rule (5)
25 Stretch to second vessel (4)



MONDAY PRIZE CROSSWORD

No.8,979 Set by GRIFFIN

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday February 8, marked Monday Crossword 8,979 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday February 12. Please allow 28 days for delivery of prizes.

Name...

Address...

Winners 8,967

J. Tabone-Adami, Sliema, Malta
C. Barter, Froyle, Hants
R. Gedling, Epsom, Surrey
Mrs R. Ibbotson, Letchworth, Herts
Miss T. James, Keston, Kent
J.W. Legon, Stevenage, Herts

Solution 8,967